

19 July 2024

Corp

Ticker **PMG:AIM**

Oil & Gas

Shares in issue (m) 109.3

Next results H1 May

Price **11.8p**

Target price 66.5p

Upside 466%

Market Cap **£12.8m**

Net debt/(cash) -£12.5m

Other EV adjustments £0.0m

Enterprise value £0.3m

What's changed? **From To**

Adjusted EPS 0.0 -0.1

Target price 50.0 66.5

Share price performance



%	1M	3M	12M
Actual	-7.8	-23.0	-21.7

Company description

Parkmead has four divisions offering a broad set of growth opportunities in oil, gas and renewables.

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Parkmead Group*

One of the Largest Undeveloped UK Oil Accumulations

Parkmead has been formally awarded the P2634 licence, comprising three UK Continental Shelf (UKCS) blocks and containing several discoveries including the Fynn Beaully heavy oil field, one of the largest undeveloped oil accumulations in the UK. Fynn Beaully has been proven by three wells and is estimated to contain gross oil-in-place of between 740 million and 1.33 billion barrels. Importantly, for the first time, the entire Fynn Beaully discovery has been licenced to a single consortium – increasing the likelihood that Parkmead and its partner can progress the development of this major oil field.

— **Licence contains significant discovered resource.** The new licence contains seven undeveloped oil discoveries, the most significant of which is Fynn Beaully, one of the largest undeveloped oil accumulations in the UK with estimated oil in place of between 740 million and 1.33 billion barrels. Situated between the prolific, multi-billion barrel Claymore and Piper fields and infrastructure, the field extends across all three blocks with about 88% of the resource estimated to lie within the licence area secured by Parkmead and Orcadian.

— **Low-cost work programme.** Parkmead and Orcadian will leverage their expertise gained in developing challenging crudes to work towards commercialisation of Fynn Beaully. The initial work programme on the licence requires no major capital outlay and will focus on geophysical, geochemical, reservoir modelling and production technology studies to assess the feasibility of reducing oil viscosity using enhanced oil recovery techniques. This will include the potential combination of polymer flooding with geothermal heat uplift to improve recovery, whilst fulfilling the NSTA's Net Zero requirements.

— **Labour Manifesto.** In its manifesto, the Labour party will “not revoke any existing licences” and will “manage fields for the entirety of their lifespan.” Labour will also “not issue new licences to explore new fields.” By not revoking any licences, we believe that in the event that Fynn Beaully is deemed commercial, Labour will honour the progression of the licence into production. As a result, we believe Parkmead has secured a significant, strategic resource ahead of any potential licensing-round moratorium.

Additionally, whilst the manifesto reiterated previously announced Labour policy regarding the extension and increase to the Energy Profits Levy (EPL), it also provided some clarification on what was previously highlighted as “loopholes” in the EPL structure. By specifically referring to “investment allowances” (rather than capital allowances), we interpret this as referring to the 29% uplift against the EPL for non-decarbonisation spend. If correct, the current 91.4% tax relief for new oil and gas capex would only reduce to 84.3%. Whilst still a significant change to the UK tax regime, the changes are not as severe as first feared.

— **Updated Valuation.** We update our valuation to include the newly awarded undeveloped discoveries in P2634 and increase our target price to 66.5p/share. To account for potential future farm-downs, we have lowered Parkmead's assumed working interest in P2634 to 25% (from 50%). Our target price assumes only a 15% commercial chance of success at Fynn Beaully, highlighting the substantial potential upside that exists as the project gets derisked. At 66.5p, our target price represents 5.5x upside.

Key estimates		2020A	2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	4.1	3.6	12.1	14.8	6.2
Adj EBITDA	£m	0.3	-0.9	8.2	-21.5	2.4
Adj EBIT	£m	-0.5	-1.5	7.5	-22.2	1.7
Adj PBT	£m	-0.7	-2.6	6.3	-22.3	1.8
Adj EPS	p	0.5	-2.2	1.2	3.0	-0.1
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2020A	2021A	2022A	2023A	2024E
EV/sales	x	0.1	0.1	0.0	0.0	0.1
EV/EBIT (adj)	x	-0.7	-0.2	0.0	-0.0	0.2
P/E (adj)	x	25.8	-5.3	10.0	3.9	-94.8
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-36.9%	-15.5%	-7.0%	-85.0%	-22.9%

One of the Largest Undeveloped UK Oil Accumulations

Income statement		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Sales	£m	3.6	12.1	14.8	6.2
Gross profit	£m	2.3	11.6	13.3	4.4
EBITDA (adjusted)	£m	-0.9	8.2	-21.5	2.4
EBIT (adjusted)	£m	-1.5	7.5	-22.2	1.7
Associates/other	£m	-0.4	0.0	0.0	0.0
Net interest	£m	-0.7	-1.2	-0.1	0.1
PBT (adjusted)	£m	-2.6	6.3	-22.3	1.8
Total adjustments	£m	-10.9	-2.3	-13.0	-0.1
PBT (stated)	£m	-13.5	4.0	-35.3	1.7
Tax charge	£m	-0.4	-4.8	-7.0	-1.8
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-13.8	-0.8	-42.3	-0.1
Adjusted earnings	£m	-2.6	1.4	3.6	-0.1
Shares in issue (year end)	m	109.2	109.3	109.3	109.3
EPS (stated)	p	-12.7	-0.7	-38.7	-0.1
EPS (adjusted, fully diluted)	p	-2.2	1.2	3.0	-0.1
DPS	p	0.0	0.0	0.0	0.0

Cash flow		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
EBITDA	£m	-0.9	8.2	-21.5	2.4
Net change in working capital	£m	-1.1	-0.6	0.0	0.0
Other operating items	£m	0.8	0.4	32.9	0.1
Cash flow from op. activities	£m	-1.2	8.0	11.4	2.5
Cash interest	£m	0.0	0.0	0.1	0.1
Cash tax	£m	-0.1	-3.5	-4.9	-1.8
Capex	£m	-0.7	-3.8	-0.5	-0.9
Other items	£m	-0.0	-1.7	-17.0	-2.8
Free cash flow	£m	-2.0	-0.9	-10.9	-2.9
Acquisitions / disposals	£m				
Dividends	£m				
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	-4.4	-0.1	-0.4	-0.2
Net change in cash flow	£m	-2.4	-0.1	-11.7	-3.2
Opening net cash (debt)	£m	25.0	25.8	25.2	13.7
Closing net cash (debt)	£m	25.8	25.2	13.7	10.6

Balance sheet		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m	19.3	22.5	10.1	9.8
Goodwill & other intangibles	£m	31.7	35.4	3.1	3.5
Other non current assets	£m	2.9	3.1	0.0	0.0
Net working capital	£m	-2.1	-20.7	-1.6	-1.4
Other assets	£m	0.0	0.0	2.9	2.9
Other liabilities	£m	-17.0	-5.6	-10.5	-7.7
Gross cash & cash equivs	£m	23.4	23.3	11.6	8.4
Capital employed	£m	58.2	57.9	15.5	15.5
Gross debt	£m	0.5	0.9	0.9	0.9
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	57.7	57.0	14.7	14.6
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	58.2	57.9	15.5	15.5

Growth analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	-11.6%	236.1%	21.8%	-58.1%
EBITDA growth	%	-430.6%	n/m	-361.5%	111.2%
EBIT growth	%	-212.2%	592.2%	-396.4%	107.7%
PBT growth	%	-248.5%	342.2%	-456.6%	108.0%
EPS growth	%	-589.6%	152.6%	156.4%	-104.1%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	64.9%	95.4%	89.7%	71.2%
EBITDA margin	%	-25.3%	67.8%	-145.6%	38.9%
EBIT margin	%	-42.2%	61.8%	-150.5%	27.5%
PBT margin	%	-71.6%	51.6%	-151.0%	29.0%
Net margin	%	-73.3%	11.5%	24.1%	-2.4%

Valuation analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
EV/EBITDA	x	-0.4	0.0	-0.0	0.1
EV/EBIT	x	-0.2	0.0	-0.0	0.2
P/E	x	-5.3	10.0	3.9	-94.8

Cash flow analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	n/m	97.7%	n/m	103.1%
Cash conv'n (FCF / EBITDA)	%	217.7%	-10.9%	50.7%	-122.3%
U/lying FCF (capex = deprn)	£m	-1.9	2.2	-11.1	-2.7
Cash quality (u/l FCF / adj earn)	%	72.5%	155.6%	-311.7%	n/m
Investment rate (capex / deprn)	x	1.1	5.2	0.7	1.3
Interest cash cover	x	net cash	n/a	n/a	n/a
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	-57.4%	-170.8%	-11.0%	-22.5%
Net working capital / sales	days	-210	-623	-40	-82
Inventory (days)	days	7	1	0	1
Receivables (days)	days	137	61	23	56
Payables (days)	days	353	685	64	139

Leverage analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Net debt / equity	%	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	n/a	net cash	n/a	net cash
Liabilities / capital employed	%	0.9%	1.6%	5.5%	5.6%

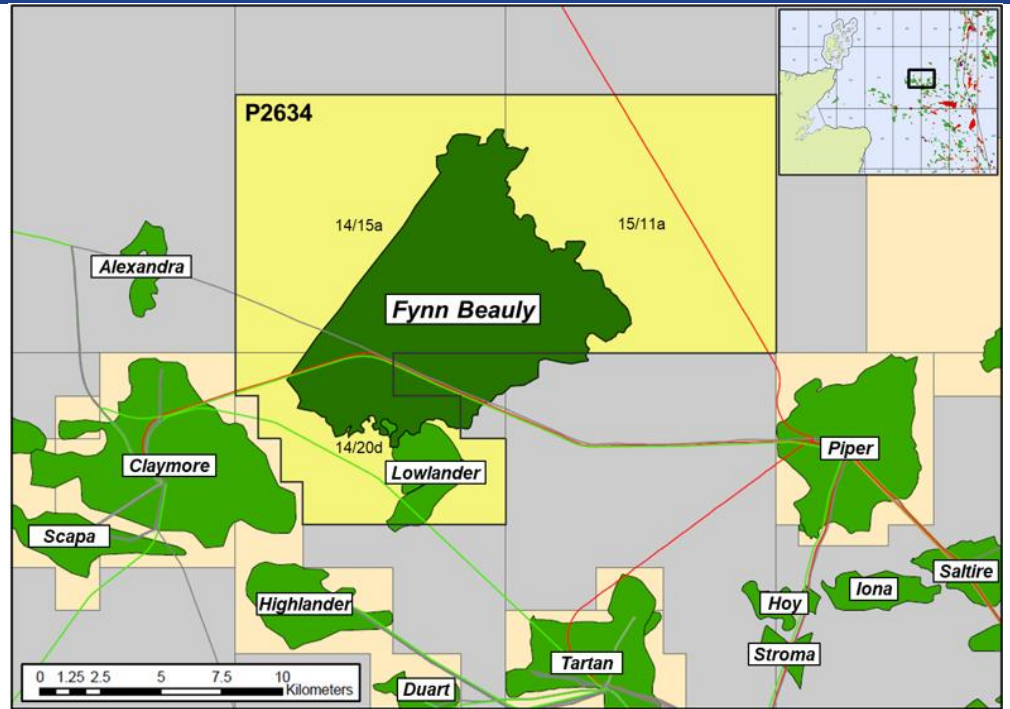
Capital efficiency & intrinsic value		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	-4.6%	2.4%	24.3%	-1.0%
RoCE (EBIT basis, pre-tax)	%	-2.6%	12.9%	-143.2%	11.0%
RoCE (u/lying FCF basis)	%	-3.3%	3.7%	-71.6%	-17.8%
NAV per share	p	52.9	52.2	13.4	13.4
NTA per share	p	23.9	19.7	10.6	10.2

UKCS 33rd Offshore Licensing Award

Parkmead has been awarded three new offshore blocks by the North Sea Transition Authority (NSTA) in Tranche 2 of the UK's 33rd Licensing Round.

The award consists of a licence covering Blocks 14/15a, 14/20d and 15/11a situated in the Central North Sea. Parkmead will be operator and hold a 50% working interest alongside its partner Orcadian Energy. The new licence contains seven undeveloped oil discoveries within the Mesozoic and Palaeozoic reservoirs. The most substantial of these is the major Fynn Beaully accumulation.

Figure 1: Licence P2634 Location



Source: Parkmead Group

Fynn Beaully is one of the biggest undeveloped oil fields in the UK. This large, heavy-oil discovery is situated between the prolific Claymore and Piper fields. The field extends across all three awarded blocks and is estimated to contain oil-in-place of between 740 million and 1.33 billion barrels. This is an important award because the acreage which encapsulates this significant oil field has not previously been licensed to a single partner group, creating an exciting opportunity, in our view, for Parkmead and Orcadian to advance the development of this substantial, previously untapped resource.

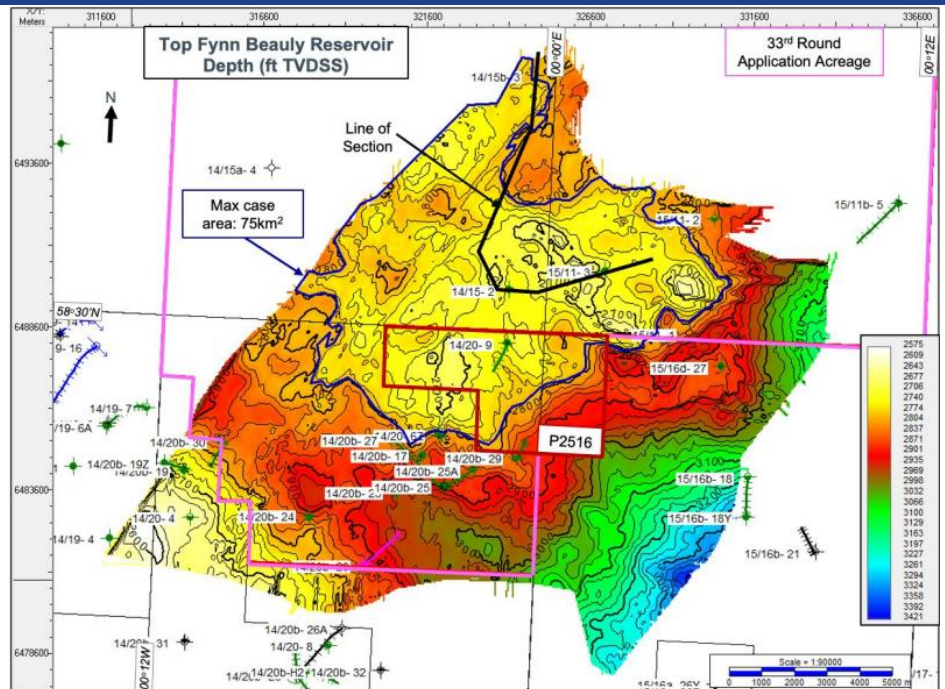
The initial work programme on the licence requires no major capital outlay and will focus on geophysical, geochemical, reservoir-modelling and production technology studies to assess the feasibility of reducing oil viscosity using enhanced oil recovery techniques. This will include the potential combination of polymer flooding with geothermal heat uplift to improve recovery, whilst fulfilling the NSTA's Net Zero requirements.

Fields

Fynn Beaully

The field was discovered in 1974 by the 15/11-3 well and appraised by the 14/15-2 and 14/20-9 wells. Under test, the field flowed at a rate of 10bbls/d of 10.6° API crude. The partners estimate the reservoir viscosity of Fynn Beaully oil to be at 2,500-5,000cP based on correlations with other North Sea heavy oils and the expected reservoir temperature of 25 degrees Celsius. As oil viscosity is sensitive to reservoir temperature, the partners estimate that if the reservoir temperature could be increased to 50 degrees Celsius, the oil could have a viscosity more like that from existing developments such as Kraken and Mariner.

Figure 2: Fynn Beaulys Reservoir Map



Source: Orcadian Energy

The partners are currently assessing development options including downhole heating (powered by wind turbines) and geothermal warm water polymer injection to reduce the viscosity. An initial step would be to drill a horizontal test well and carry out a flow test using microwaves for reservoir heating.

Valuation

In our valuation of the P2634 licence, we value Parkmead based upon a 25% working interest (currently 50%) to allow for potential future farm-downs. Based on a conservative view of most likely oil recovery volumes, we have assumed a recoverable resource figure of 292mm bbls. We value Fynn Beaulys at US\$35m or 22p/share (risky) and US\$231m or 147p/share (unrisky), using a 15% commercial chance of success. This is based on a net resource (25% working interest) of 73mm boe (million barrels of oil equivalent) at about US\$3/boe. The substantial difference between our risky and unrisky valuation highlights the potential upside in our valuation as Parkmead derisks the project.

In aggregate, we value Parkmead at 66.5p/share, a 5.5x uplift from the current share price.

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Source: Cavendish

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