

16 November 2018

Equity Research
Colin Smith



BUY

(Remains Unchanged)

Target Price: 85p

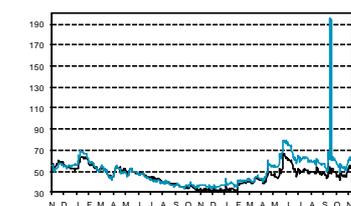
Share Price: 61p

(Price at close 14 November 2018)

Stock Codes PMG.L / PMG LN
Market Cap £60m
Sector Oil & Gas Producers
Last Published Research: 29 March 2018

Analyst
Colin Smith

Absolute & Relative Performance



— Absolute
— Relative to DS Oil & Gas

Source Datastream

Investment Research

Flash Note

PARKMEAD

FY17/18 results – Netherlands performing strongly

Parkmead reported a sharp increase in gross profit boosted by a strong performance from its Dutch gas production but overall, the company reported a loss per share of 7.2p. Cash and net cash ended the year at £23.8m. Proven and probable reserves and 2C resources increased substantially driven by consolidation around the Greater Perth Area (GPA) and other licence awards. Commercial discussions on the potential use of the Scott facilities as a development route for GPA have begun. We increase our estimates to reflect higher production. Our Target Price and recommendation remain unchanged.

- **FY17/18 results.** For the year to June 2018, Parkmead reported gross profit of £4.1m (FY16/17 £1.2m) driven by increased production and higher margins from the company's Dutch assets, notably Diever West. However, impairment on licence relinquishment, non-cash revaluation of share appreciation rights and higher taxes deepened the net loss to £7.1m (FY16/17 net loss of £4.9m). Cash flow from operations was £2.2m (FY16/17 deficit of £0.4m) driven by higher revenue and positive working capital while net cash invested increased to £4.8m (FY16/17 £1.7m) mainly reflecting £2.9m in loans issued. Cash and net cash ended the period at £23.8m (£24.4m at 31 December 2017).
- **Increased reserves and resources.** During the financial year, Parkmead consolidated its position in Perth and Dolphin where it now holds a 100% interest, resulting in a 67% YoY increase in 2P reserves to 46.3mboe. Net 2C resources increased by 64% YoY to 101.8mboe, mainly reflecting the award of the Lowlander licence which also forms part of the GPA.
- **Potential commercialisation.** Engineering studies have confirmed that development of the GPA via the Scott platform is technically feasible and commercial discussions with Nexen have commenced. Parkmead continues to evaluate the potential for fracking the Claymore formation to enhance recovery. The development potential of the Platypus gas field development is also being evaluated as is further development of the remaining potential in Parkmead's acreage position in the Netherlands.

Year End June	Sales (£m)	PBTA (£m)	EPS (p)	DPS ord (p)	P/E (x)	EV/EBITDA (x)	Yield (%)
2018A	7.0	(5.9)	(7.2) from: -4.0	0.0	n/a	217.6	0.0
2019E	6.5	1.2	0.6 from: -0.8	0.0	107.7	21.8	0.0
2020E	5.4	0.2	(0.4) from: -1.5	0.0	n/a	66.5	0.0
2021E	4.0	(0.2)	(0.2)	0.0	n/a	233.9	0.0

Source Company Data, Panmure Gordon

- **Raising estimates.** Following the strong operating performance, we raise our estimates to reflect higher production and now forecast a modest net profit in 2018/19 from a modest loss. However, with current production of around 0.5-0.6kboed, the value of the company is mainly embedded in the company's undeveloped resources and cash position (Figure 1). Were talks to commercialise GPA via Scott to make substantial progress that could be a trigger for significant value upside. We maintain our Buy recommendation and 85p per share Target Price.

Figure 1: Parkmead short form NAV

	Total (mmboe)	Risked NAV (p/share)	Unrisked NAV (p/share)
Producing fields	1	1.6	1.6
Net (debt)/cash (2018/19E)		15.6	15.6
Tax losses (discounted)		11.4	11.4
G&A (2 years)		(3.5)	(3.5)
Aupec		3.8	3.8
FPM stake		3.6	3.6
Corporate		30.9	30.9
Core NAV	1	32.4	32.4
Undeveloped resources	106	50.5	375.9
Tangible NAV	107	82.9	408.4
Exploration prospects	1	0.1	1.3
All sources NAV	108	83.0	409.7
General risking		-	
Rounded target price		85	

Source Company, Panmure Gordon

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Distribution of investment ratings for equity research (as of 3 Jan 18)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Overall Global Distribution (Banking Client*)			Buy	Total return of >10% in next 12 months
Buy	Hold	Sell	Hold	Total return >-10% and <+10% in next 12 months
66% (47%)	27% (8%)	7% (0%)	Sell	Total return <-10% in next 12 months
* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients				

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