Corp

Ticker	PMG:AIM
Energy	
Shares in issue (m)	109.2
Next results	H1 Mar

Price	35.3p
Target price	167.0p
Upside	373%

Market cap	£38.5m
Net debt/(cash)	-£25.0m
Other EV adjustments	£0.0m
Enterprise value	£13.5m

What's changed?	From	To
Adjusted EPS	-0.6	-0.3
Target price	155.0	167.0

Share price performance

%	1M	3M	12M
Actual	-7.0	1.1	52.2

Company description

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

Jonathan Wright
Director of Research

* denotes corporate client of finnCap

Parkmead Group*

High-grading its renewables portfolio

Parkmead has sold non-core sites from its UK renewables land portfolio for £4m, high-grading the remaining land, which contains significant wind farm potential. Management sees the move into renewables as a natural expansion of its energy operations, offering further diversification of its income stream while helping to 'future-proof' it to the energy transition. Our risked-NAV and price target rise 8% to 167p due to a higher, US$55/bbl, long-term Brent oil price assumption.

- **High-grading its renewables portfolio.** After detailed analysis of its UK renewable energy land portfolio, Parkmead has divested two non-core areas for £4m combined, retaining those sites with the greatest renewable energy potential. Parkmead's renewable energy land portfolio was acquired with Pitreadie Farm Ltd in August 2019 for £8.5m, comprising £4.9m paid in shares alongside the adoption of £3.6m of debt. This disposal not only high-grades the portfolio and minimises the entry cost, but also allows early retirement of the Pitreadie debt.
- **Significant wind farm potential.** Prior to the sale, Pitreadie owned 2,320 acres of farmland in Scotland. The non-core land sold is largely arable, leaving areas offering significant renewable energy potential, notably in wind, but also biomass, with legacy woodland planting undertaken on part of the land. Parkmead has identified substantial wind energy potential at one location which spans ~1,200 acres and lies adjacent to Fred. Olsen Renewables' 75.9 MW Mid Hill wind farm, 15 miles west of Aberdeen. It benefits from excellent average wind speeds of between 7-10 m/s (25-36 km/h) and technical studies are underway on this site.
- **Renewables valuation.** The economics of renewable assets are unique to the specific aspects of each project, which makes analysis of a to-be-defined wind farm challenging. Applying industry norms, we estimate the site highlighted by PMG can accommodate a ~20 MW wind farm. Adopting industry average development and operating costs, we estimate a wind farm of this scale has an NPV of ~£9m (8.5p/sh). Applying a 30% commercial chance of success, we include the wind farm in our risked-NAV at 2.5p/sh. We also include the Pitreadie Farm acquisition at cost, 5.7p/sh.
- **NAV raised.** We have marked-to-market FY21 estimates for commodity prices and FX rates. We have also updated our NAV to reflect a US$55/bbl long-term Brent assumption, up from US$50/bbl previously. As a result, our risked-NAV and price target rise 8% to 167p. Parkmead's renewables business accounts for a modest proportion of this, but is an area of significant growth and acquisition potential.

Key estimates		2018A	2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	7.0	8.3	4.1	5.6	6.4
Adj EBITDA	£m	-4.8	5.4	0.3	2.1	2.8
Adj EBIT	£m	-5.3	5.2	-0.5	1.4	2.1
Adj PBT	£m	-5.9	4.8	-0.7	0.8	1.5
Adj EPS	p	-2.2	2.4	0.8	-0.3	-0.0
DPS	p	0.0	0.0	0.0	0.0	0.0
Key valuation metrics						
EV/EBIT (adj)	x	-2.5	2.6	-27.7	9.9	6.5
P/E (adj)	x	-16.1	14.4	45.1	-102.0	-6,370.7
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	0.6%	-2.2%	-12.3%	-1.9%	-18.1%
Pre-tax ROCE	%	-8.3%	7.6%	-0.7%	1.8%	2.8%

Income statement		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Sales	£m	8.3	4.1	5.6	6.4
Gross profit	£m	6.0	2.1	3.8	4.4
EBITDA (adjusted)	£m	5.4	0.3	2.1	2.8
EBIT (adjusted)	**£m**	**5.2**	**-0.5**	**1.4**	**2.1**
Associates/other	£m	0.0	0.4	0.0	0.0
Net interest	£m	-0.3	-0.6	-0.6	-0.6
PBT (adjusted)	**£m**	**4.8**	**-0.7**	**0.8**	**1.5**
Total adjustments	£m	-0.0	-0.1	-0.1	-0.1
PBT (stated)	£m	4.8	-0.8	0.8	1.4
Tax charge	£m	-2.4	0.3	-1.2	-1.4
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	2.4	-0.5	-0.4	-0.0
Adjusted earnings	**£m**	**2.5**	**0.9**	**-0.4**	**-0.0**
Shares in issue (year end)	m	98.9	108.6	109.2	109.2
EPS (stated)	p	2.4	-0.5	-0.4	-0.0
EPS (adjusted, fully diluted)	**p**	**2.4**	**0.8**	**-0.3**	**-0.0**
DPS	**p**	**0.0**	**0.0**	**0.0**	**0.0**

Growth analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	17.8%	-50.7%	37.6%	13.7%
EBITDA growth	%	212.5%	-94.9%	661.0%	33.0%
EBIT growth	%	197.1%	-109.5%	381.2%	52.8%
PBT growth	%	182.2%	-115.4%	210.6%	79.3%
EPS growth	%	211.8%	-68.0%	-144.2%	98.4%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	72.4%	51.2%	67.0%	68.7%
EBITDA margin	%	65.1%	6.8%	37.4%	43.8%
EBIT margin	%	62.4%	-12.0%	24.4%	32.9%
PBT margin	%	58.4%	-18.2%	14.6%	23.0%
Net margin	%	29.8%	21.3%	-6.9%	-0.1%

Cash flow		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
EBITDA	£m	5.4	0.3	2.1	2.8
Net change in working capital	£m	-0.5	-0.5	0.0	0.0
Other operating items	£m	-0.2	1.1	0.2	0.1
Cash flow from op. activities	**£m**	**4.7**	**0.9**	**2.3**	**2.9**
Cash interest	£m	0.2	0.1	0.0	-0.0
Cash tax	£m	-1.8	-1.9	-1.7	-2.0
Capex	£m	-4.0	-3.8	-1.3	-7.8
Other items	£m				
Free cash flow	**£m**	**-0.8**	**-4.7**	**-0.7**	**-7.0**
Acquisitions / disposals	£m				
Dividends	£m				
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	1.1	-0.2	-0.3	2.7
Net change in cash flow	**£m**	**6.9**	**-5.0**	**3.0**	**-4.3**
Opening net cash (debt)	£m	23.8	30.7	25.7	28.7
Closing net cash (debt)	**£m**	**30.7**	**25.7**	**28.7**	**24.4**

Cash flow analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	88.0%	319.6%	108.2%	102.7%
Cash conv'n (FCF / EBITDA)	%	-15.8%	n/m	-35.0%	-249.6%
U/lying FCF (capex = depn)	£m	2.9	-1.7	-0.2	0.1
Cash quality (u/l FCF / adj earn)	%	119.0%	-197.8%	42.2%	n/m
Investment rate (capex / depn)	x	18.4	5.0	1.8	11.2
Interest cash cover	x	n/a	n/a	n/a	58.2
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	-47.2%	-70.9%	-47.1%	-37.5%
Net working capital / sales	days	-172	-259	-172	-137
Inventory (days)	days	0	12	9	7
Receivables (days)	days	29	126	92	81
Payables (days)	days	201	397	272	225

Balance sheet		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m	11.8	21.4	16.8	23.4
Goodwill & other intangibles	£m	36.2	38.3	39.2	39.7
Other non current assets	£m	0.0	2.9	2.9	0.0
Net working capital	£m	-3.9	-2.9	-2.6	-2.4
Other assets	£m	2.9	0.0	0.0	0.0
Other liabilities	£m	-9.5	-10.4	-10.4	-10.4
Gross cash & cash equivs	£m	30.7	25.7	28.7	24.4
Capital employed	**£m**	**68.3**	**74.9**	**74.6**	**74.7**
Gross debt	£m	0.0	3.6	3.6	3.6
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	68.3	71.3	71.0	71.1
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	**£m**	**68.3**	**74.9**	**74.6**	**74.7**

Leverage analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Net debt / equity	%	no debt	net cash	net cash	net cash
Net debt / EBITDA	x	no debt	net cash	net cash	net cash
Liabilities / capital employed	%	0.0%	4.8%	4.8%	4.8%

Capital efficiency & intrinsic value		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	3.6%	1.2%	-0.5%	0.0%
RoCE (EBIT basis, pre-tax)	%	7.6%	-0.7%	1.8%	2.8%
RoCE (u/lying FCF basis)	%	4.3%	-2.3%	-0.2%	0.2%
NAV per share	p	69.0	65.7	65.0	65.1
NTA per share	p	32.4	30.5	29.1	28.8

Estimate changes and net asset value

Figure 1: Parkmead estimate change summary

		2021E			2022E		
		New	Old	% Chg	New	Old	% Chg
Brent oil price	US$/bbl	52.5	45.0	*17%*	55.0	47.5	*16%*
Dutch TTF gas price	€/MWh	15.0	12.0	*25%*	16.5	15.0	*10%*
UK NBP gas price	p/th	38.0	30.0	*27%*	40.0	40.0	*0%*
Group production	**boepd**	**538**	**538**	***0%***	**563**	**563**	***0%***
Revenue	**£m**	**5.6**	**4.8**	***16%***	**6.4**	**6.1**	***5%***
Cost of Sales	£m	-2.6	-2.7	*-4%*	-2.7	-2.9	*-4%*
Admin expenses	£m	-1.5	-1.4	*8%*	-1.5	-1.4	*8%*
Exploration expenses	£m	-0.2	-0.2	*0%*	-0.1	-0.1	*0%*
Finance expense	£m	-0.6	0.1	*n.m.*	-0.6	0.0	*n.m.*
Pre-tax profit	**£m**	**0.8**	**0.7**	***15%***	**1.4**	**1.7**	***-19%***
Tax	£m	-1.2	-1.3	*-12%*	-1.4	-1.8	*-21%*
Net profit	**£m**	**-0.4**	**-0.6**	***-39%***	**0.0**	**-0.1**	***-88%***
Net cash flow from ops	**£m**	**0.5**	**0.2**	***168%***	**0.9**	**0.8**	***12%***
Capex	£m	-1.3	-1.3	*0%*	-7.8	-8.2	*-5%*
Period-end cash	£m	28.7	24.5	*17%*	24.4	19.7	*24%*
Period-end debt	£m	-0.7	-0.7	*0%*	-3.6	-3.6	*0%*
Net cash/(debt)	**£m**	**28.0**	**23.8**	***18%***	**20.8**	**16.1**	***29%***

Source: finnCap

Figure 2: Parkmead net asset value

Net Asset Valuation	Net resource	NPV/bbl	Unrisked NPV		Geological	Commercial	Dry hole	Risked NPV	
	mmboe	US$/boe	US$m	p/sh	CoS	CoS	cost US$m	US$m	p/sh
G&A (3 years)			-5.7	-3.8				-5.7	-3.8
Net cash / (debt)			33.8	22.7				33.8	22.7
SAR/DSP liabilities			-2.2	-1.5				-2.2	-1.5
Options			0.5	0.3				0.5	0.3
Athena decommissioning			-9.3	-6.3				-9.3	-6.3
Aupec (6x 2021e EBIT)			1.8	1.2				1.8	1.2
Pitreadie Farm Ltd land (@ cost)			8.5	5.7				8.5	5.7
			27.3	**18.4**				**27.3**	**18.4**
Producing assets									
Netherlands producing	4.0	5.65	22.3	15.0	100%	100%		22.3	15.0
Core value:			**40.7**	**33.4**				**40.7**	**33.4**
Contingent resource:									
Pitreadie 20 MW Wind Farm			12.5	8.4		30%		3.8	2.5
Netherlands - Ottoland	0.7	3.67	2.5	1.7	100%	50%		1.3	0.9
Netherlands - Papekop	0.9	3.67	3.3	2.2	100%	50%		1.7	1.1
UK - Greater Perth Area	79.7	7.06	557.4	374.6	100%	30%		167.2	112.4
UK - Platypus	2.6	4.46	11.7	7.9	100%	50%		5.9	3.9
UK - Fynn Beauly	25.1	1.00	25.1	16.9	100%	10%		2.5	1.7
UK - Fynn Andrew	9.0	1.00	9.0	6.0	100%	10%		0.9	0.6
Contingent value:			**621.6**	**417.8**				**183.2**	**123.1**
Prospective resource:									
UK - Skerryvore (Mey+Ekofisk+Tor)	46.6	4.71	219.4	147.5	24%	30%	5.8	10.0	6.7
UK - Ruvaal	9.3	3.53	32.9	22.1	17%	0%	6.2	0.0	0.0
UK - Platypus East	1.3	3.69	4.7	3.2	73%	50%	0.5	1.2	0.8
UK - Blackadder	14.1	3.35	47.4	31.8	41%	50%	5.3	4.4	3.0
UK - Sanda South	86.0	3.18	273.1	183.5	12%	0%	30.8	0.0	0.0
UK - Sanda North	194.0	3.18	616.1	414.0	15%	0%	29.8	0.0	0.0
UK - Davaar	204.0	2.82	575.9	387.0	18%	0%	28.7	0.0	0.0
Netherlands - Drenthe IIIb exploration	0.5	2.94	1.6	1.1	43%	50%	1.3	0.0	0.0
Prospective value:			**1,771.1**	**1,190.2**				**15.6**	**10.5**
Total - Core + Contingent + Prospective:			**2,433.4**	**1,641.3**				**239.5**	**167.0**

Source: finnCap.
Assumes long term Brent oil price of US$55/bbl, UK NBP gas price of 45p/th and TTF Dutch gas price of €16.5/MWh

1 Bartholomew Close
London EC1A 7BL
Tel 020 7220 0500
Fax 020 7220 0597
Email info@finncap.com
Web www.finncap.com