finnCap CAPITAL MARKETS

Company Note

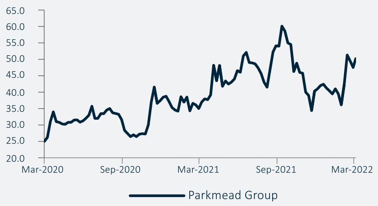
25 March 2022

Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	FY Sept
Price	50.2p
Target price	160.0p
Upside	219%
Market cap	£54.9m
Net debt/(cash)	-£19.6m
Other EV adjustments	£0.0m
Enterprise value	£35.2m

What's changed?	From	To
Adjusted EPS	1.3	2.8
Target price	159.0	160.0

Share price performance



%	1M	3M	12M
Actual	22.1	22.4	36.4

Company description

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

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PARKMEAD GROUP*

Strong interims provide a taste of what's to come

Parkmead's portfolio is perfectly positioned for the current storm. Its Dutch gas business is enjoying a gas price windfall and new investment in growth, its UK oil development and exploration prospects have been greatly enhanced by soaring oil prices and a renewed drive for domestic supplies, and its renewables business is set to be boosted by a more favourable regulatory regime and the tail wind of higher electricity prices. These interim results, which saw revenue triple and gross profit jump 5x, provide a taste of what's to come from its low-cost Netherlands gas business, which is directly exposed to current stratospheric European gas prices.

- **Strong interims to end December.** Higher European gas prices drove a tripling in revenue to £4.6m, while gross profit jumped almost 5x to £3.8m, demonstrating the operational leverage Parkmead's largely fixed cost onshore Dutch gas production can deliver. EBIT and EBITDA also improved sharply to £1.9m and £2.2m respectively, from losses in the prior year period. This propelled Parkmead to a profit before tax of £1.3m versus last year's £0.7m loss. Net cash from operations of £1.7m was generated, which alongside modest exploration capex left period-end cash strong at £24.1m (22p/sh). This provides plenty of ammunition for increased investment and acquisitions, with Parkmead indicating it is actively evaluating acquisition opportunities in all areas of its business – renewables, gas and oil.
- **Earnings raised sharply on higher gas prices.** Parkmead's production comes via four low-cost Dutch onshore gas fields, which generated very strong netbacks for the period of US$73/boe. Dutch gas prices have risen further since, pointing to an even stronger second half as Parkmead remains unhedged. This has encouraged renewed growth activity with a two-well exploration programme slated for late 2022/early 2023 and the Papekop gas development progressing. The structural shift emerging in European gas makes this a highly valuable asset – increases to our FY22 and FY23 gas prices drive a 46% increase in FY22 EBITDA, to £7.5m, and more than a quadrupling in FY23 to £8.8m.
- **UK prospects enhanced.** Surging oil prices following Russia's invasion of Ukraine and a renewed focus on domestic security of supply are major positives for Parkmead's UK portfolio – greatly improving the prospects of a farm-in to its Greater Perth Area development project and likely smoothing regulatory hurdles for future exploration activity, notably on the large Skerryvore prospect (11p/sh risked, 207p/sh unrisked) where a drilling decision is expected this year.
- **Wind in its sails.** Onshore wind farm planning rules are expected to be relaxed to encourage more to be built as part of the UK's new energy supply strategy, a boost for Parkmead's renewable ambitions. It already has one operational wind farm delivering free cash flow and is progressing plans for a much larger second, while also identifying additional upside opportunities. These assets can generate steady long-term cash flow, while offering exposure to strong electricity prices.

Key estimates		2019A	2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jun	Jul
Revenue	£m	8.3	4.1	3.6	11.6	13.0
Adj EBITDA	£m	5.4	0.3	-0.9	7.5	8.8
Adj EBIT	£m	5.2	-0.5	-1.5	7.1	8.4
Adj PBT	£m	4.8	-0.7	-2.6	6.5	7.7
Adj EPS	p	2.4	0.8	-2.5	2.8	3.3
DPS	p	0.0	0.0	0.0	0.0	0.0
Key valuation metrics						
EV/EBIT (adj)	x	6.8	-72.1	-23.1	5.0	4.2
P/E (adj)	x	20.5	64.1	-19.9	17.8	15.2
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.5%	-8.6%	-3.6%	4.6%	5.0%
Pre-tax ROCE	%	7.6%	-0.7%	-2.6%	11.3%	12.7%

Strong interims provide a taste of what's to come

Income statement		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Sales	£m	4.1	3.6	11.6	13.0
Gross profit	£m	2.1	2.3	10.1	11.2
EBITDA (adjusted)	£m	0.3	-0.9	7.5	8.8
EBIT (adjusted)	**£m**	**-0.5**	**-1.5**	**7.1**	**8.4**
Associates/other	£m	0.4	-0.4	0.0	0.0
Net interest	£m	-0.6	-0.7	-0.6	-0.7
PBT (adjusted)	**£m**	**-0.7**	**-2.6**	**6.5**	**7.7**
Total adjustments	£m	-0.1	-10.9	-0.1	-0.1
PBT (stated)	£m	-0.8	-13.5	6.4	7.7
Tax charge	£m	0.3	-0.4	-3.4	-3.7
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-0.5	-13.8	3.0	3.9
Adjusted earnings	**£m**	**0.9**	**-3.0**	**3.3**	**3.9**
Shares in issue (year end)	m	108.6	109.2	109.2	109.2
EPS (stated)	p	-0.5	-12.7	2.8	3.6
EPS (adjusted, fully diluted)	**p**	**0.8**	**-2.5**	**2.8**	**3.3**
DPS	**p**	**0.0**	**0.0**	**0.0**	**0.0**

Growth analysis		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Sales growth	%	-50.7%	-11.6%	220.1%	12.1%
EBITDA growth	%	-94.9%	-430.8%	926.2%	17.2%
EBIT growth	%	-109.5%	-212.3%	565.4%	18.0%
PBT growth	%	-115.4%	-248.6%	350.0%	19.3%
EPS growth	%	-68.0%	-422.6%	211.6%	17.5%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Gross margin	%	51.2%	64.9%	87.3%	86.2%
EBITDA margin	%	6.8%	-25.3%	65.3%	68.3%
EBIT margin	%	-12.0%	-42.2%	61.4%	64.6%
PBT margin	%	-18.2%	-71.6%	55.9%	59.5%
Net margin	%	21.3%	-82.9%	28.9%	30.3%

Cash flow		**2020A**	**2021A**	**2022E**	**2023E**
Year end:		**Jun**	**Jun**	**Jun**	**Jul**
EBITDA	£m	0.3	-0.9	7.5	8.8
Net change in working capital	£m	-0.5	-1.1	0.0	0.0
Other operating items	£m	1.1	0.8	0.4	0.2
Cash flow from op. activities	**£m**	**0.9**	**-1.2**	**7.9**	**9.0**
Cash interest	£m	0.1	0.0	-0.0	-0.1
Cash tax	£m	-1.9	-0.1	-4.2	-4.6
Capex	£m	-3.8	-0.7	-1.1	-1.6
Other items	£m				
Free cash flow	**£m**	**-4.7**	**-2.0**	**2.5**	**2.7**
Acquisitions / disposals	£m				
Dividends	£m				
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	-0.2	-4.4	-0.4	2.1
Net change in cash flow	**£m**	**-5.0**	**-2.3**	**-1.6**	**4.8**
Opening net cash (debt)	£m	30.7	25.7	23.4	21.8
Closing net cash (debt)	**£m**	**25.7**	**23.4**	**21.8**	**26.6**

Cash flow analysis		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Cash conv'n (op cash / EBITDA)	%	319.6%	n/m	105.2%	101.7%
Cash conv'n (FCF / EBITDA)	%	n/m	214.2%	33.6%	30.8%
U/lying FCF (capex = depn)	£m	-1.7	-1.9	3.2	3.9
Cash quality (u/l FCF / adj earn)	%	-197.8%	63.1%	96.6%	99.0%
Investment rate (capex / depn)	x	5.0	1.1	2.5	3.5
Interest cash cover	x	n/a	net cash	324.0	176.2
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Net working capital / sales	%	-70.9%	-57.4%	-17.7%	-13.0%
Net working capital / sales	days	-259	-210	-64	-48
Inventory (days)	days	12	7	2	2
Receivables (days)	days	126	137	43	38
Payables (days)	days	397	353	109	88

Balance sheet		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Tangible fixed assets	£m	21.4	19.3	24.6	24.7
Goodwill & other intangibles	£m	38.3	31.7	32.1	32.9
Other non current assets	£m	2.9	2.9	2.9	0.0
Net working capital	£m	-2.9	-2.1	-2.0	-1.7
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	-10.4	-17.0	-16.7	-16.5
Gross cash & cash equivs	£m	25.7	23.4	21.8	26.6
Capital employed	**£m**	**74.9**	**58.2**	**62.6**	**66.1**
Gross debt	£m	3.6	0.5	1.5	1.0
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	71.3	57.7	61.1	65.1
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	**£m**	**74.9**	**58.2**	**62.6**	**66.1**

Leverage analysis		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Net debt / equity	%	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	net cash	n/a	net cash	net cash
Liabilities / capital employed	%	4.8%	0.9%	2.4%	1.5%

Capital efficiency & intrinsic value		2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jul
Adjusted return on equity	%	1.2%	-5.2%	5.5%	6.0%
RoCE (EBIT basis, pre-tax)	%	-0.7%	-2.6%	11.3%	12.7%
RoCE (u/lying FCF basis)	%	-2.3%	-3.2%	5.2%	5.9%
NAV per share	p	65.7	52.9	56.0	59.6
NTA per share	p	30.5	23.9	26.6	29.4

Strong interims provide a taste of what's to come

Parkmead's portfolio is perfectly positioned for the current storm. Its Dutch gas business is enjoying a gas price windfall and investment in growing production, its UK oil development and exploration prospects have been greatly enhanced by soaring oil prices and a renewed drive for domestic supplies, and its renewable business is set to be boosted by a more favourable regulatory regime and the tail wind of higher electricity prices.

These interim results provide a taste of what's to come from its low-cost Netherlands gas business, which is directly exposed to current stratospheric European gas prices. These increased more than six-fold y/y to average €73/MWh during the period, driving a tripling of revenue to £4.6m while gross profit jumped almost 5x to £3.8m, demonstrating the operational leverage Parkmead's largely fixed cost (cost of sales rose just 8% y/y) onshore Dutch gas production can deliver. This is despite a 32% decline in gross production, a natural consequence of limited investment in recent years when European gas prices were much lower, although net production will have held up better following Parkmead's Dutch gas royalty acquisition last July.

Figure 1: Parkmead interim results highlights

Interim results to end-December		**H1 2022A**	**H1 2021A**	***% Chg***
Dutch TTF gas price	€/MWh	72.7	11.6	*526%*
Gross production	mmcfd	22.2	32.8	*-32%*
Revenue	**£'000**	**4,633**	**1,548**	***199%***
Cost of sales	£'000	(837)	(772)	*8%*
Gross Profit	**£'000**	**3,796**	**776**	***389%***
Exploration expense	£'000	(465)	(605)	*-23%*
Admin expense	£'000	(1,457)	(1,192)	*22%*
Other	£'000	-	(35)	*n.m.*
EBIT	**£'000**	**1,874**	**(1,056)**	***n.m.***
EBITDA	**£'000**	**2,215**	**(728)**	***n.m.***
Net finance expense	£'000	(588)	(331)	*78%*
PBT	**£'000**	**1,286**	**(1,387)**	*n.m.*
Tax	£'000	(1,697)	(165)	*928%*
After-tax profit/(loss)	**£'000**	**(411)**	**(1,552)**	***-74%***
Net cash flow from operations	£'000	1,704	(294)	*n.m.*
Capex	£'000	(407)	(437)	*-7%*
Net change in cash	£'000	915	(756)	*n.m.*
Period-end cash	£'000	24,128	24,533	*-2%*
Period-end debt	£'000	(500)	(3,110)	*-84%*
Period-end net cash/(debt)	**£'000**	**23,628**	**21,423**	***10%***

Source: finnCap

EBIT and EBITDA also improved sharply to £1.9m and £2.2m respectively, from losses in the prior year period. This propelled Parkmead to a profit before tax of £1.3m versus last year's £0.7m loss.

Administrative expenses rose 22% to £1.5m, but this picture is muddied by non-cash charges relating to the marking-to-market of share appreciation rights (SARs) and share based payments. Excluding these, adjusted admin expenses fell 30% to £1.2m.

Net cash of £1.7m was generated from operations versus £0.3m used in operating activities in the prior-year period. Capex remained modest with £0.4m spent mostly on exploration activities resulting in a £0.9m increase in cash y/y, which ended the period at £24.1m, or 22.1p/sh.

With period-end debt of just £0.5m, this leaves Parkmead with a strong net cash position, providing plenty of ammunition for increased investment and acquisitions. Parkmead is actively evaluating further acquisition opportunities in each of its areas of activity that complement its existing businesses – renewables, gas and oil.

Upping the ante in the Netherlands

The Netherlands is Parkmead's core production base, with gas produced from four low-cost onshore fields – Brakel, Grolloo, Geesbrug and Diever. Gross production for the period averaged 22.2 mmcfd (3,810 boepd) from these four fields. With operating costs of just US$8.6/boe, these will be generating very strong cash flow and returns with average netbacks for the period of US$73/boe.

Last July, Parkmead acquired a historic royalty associated with its interests in three of these fields – Grolloo, Geesbrug and Brakel in the Drenthe IV, Drenthe V and Andel Va licences – from operator Vermilion Energy for just €565k. This acquisition now looks inspired in light of the move in gas prices since then as it doubled the effective financial interest in these fields from 7.5% to 15%.

Dutch TTF gas prices averaged ~€73/MWh in H2 2021, more than treble H1 2021. Prices have risen further since following Russia's invasion of Ukraine, averaging €100/MWh to date in 2022. This points to an even stronger second half to the financial year from Parkmead's Dutch gas business. Critically, Parkmead's Dutch gas is entirely unhedged and is therefore set to receive the full benefit of these higher gas prices.

Figure 2: Dutch TTF gas prices (€/MWh)

Source: FactSet

Moreover, part of the rationale behind the Dutch gas royalty acquisition was to achieve greater partner alignment across the four licences, with Parkmead now owning 15% of each. This should help extend the producing life of the fields through incentivising production enhancement activity and encourages new exploration and development drilling.

Evidence of this is already emerging, with a firm budget for a two-well exploration programme in late 2022/early 2023 agreed by partners. The LBS A and B exploration targets (previously named Leemdijk and De Bree) have combined estimated Pmean gas in place volumes of 37 bcf in the Rotliegendes reservoirs, with high geological chances of success of between 40-49% and will be relatively cheap to drill (€2-3m net combined). We value these prospects at just 2.1p/sh within our risked NAV. Unrisked, we estimate they are worth nearer 15p/sh. Successful drilling of the prospects offers a fast-track tie-in opportunity as they will be drilled from the Diever site.

The Papekop development is also moving forward, progressing through concept select and now in the permitting stage. A gas development is planned at Papekop targeting 35.6 bcf of gross reserves. We currently value Papekop gas at 2.1p/sh within our risked NAV (unrisked 4.2p/sh). Papekop also contains oil upside potential, which could be developed in a second phase of the project, although we currently ascribe no value to this in our valuation.

UKCS opportunities to the fore

Surging oil prices following Russia's invasion of Ukraine and a renewed focus on domestic security of supply are also major positives for Parkmead's UK portfolio – greatly improving the prospects of a farm-in to its Greater Perth Area development project and likely smoothing regulatory hurdles for future development and exploration activity.

Greater Perth Area development opportunity

Parkmead's 100% owned Greater Perth Area (GPA) development opportunity in the Outer Moray Firth is the major prize within its portfolio. This development involves three discovered fields – Perth, Dolphin, and Lowlander – with potential 2P reserves of 75-130 mmbbls (we conservatively model an 80 mmbbl development). Oil prices of over US$100/bbl alongside a more favourable North Sea investment environment should dramatically improve the chances of finding a farm-out partner to take the development forward.

The GPA project is one of the largest undeveloped oil projects in the UKCS and Parkmead is assessing draft commercial offers received from the Scott field partnership for the potential tie-back of the GPA project to the Scott facilities, located 10km away. A tie-back to Scott is just one path to potentially unlock the GPA project and discussions are also being held with other infrastructure owners in the region but are most advanced with the Scott partners. A successful agreement would not only nail down the GPA development concept but also further boost farm-out expectations.

With an estimated oil price breakeven of ~US$35/bbl, Parkmead's GPA represents a material and highly profitable project opportunity in the current macro environment. Even with heavy 25% commercial risking, the GPA development still contributes a material 92p/sh to our 160p/sh risked NAV at a long-term Brent oil price of US$60/bbl. Moreover, Parkmead estimates every US$10/bbl increase in the long-term oil price adds ~£130m (115p/sh) to the post-tax NPV of the Perth field development alone.

Skerryvore exploration opportunity

Parkmead (30%, operator) and its JV partners (Serica, CalEnergy Resources and NEO Energy) were successfully awarded an extension to the Skerryvore licence (P.2400) during the period. Skerryvore represents an exciting exploration opportunity, consisting of three stacked targets, at Mey and Chalk level, which together could contain 157 mmboe.

Over the past year, 3D seismic reprocessing has been completed allowing final rock physics and inversion scopes to begin, ahead of a drilling decision to be made this year. We value Skerryvore's three main stacked prospects at 11p/sh within our risked-NAV, assuming an average 24% geological chance of success and 30% commercial risking. Unrisked, we estimate the prospects are worth over 200p/sh.

A structurally higher oil price environment alongside a greater drive for security of supply means this well is much more likely to be drilled. Also helping is the fact that activity levels are already high on the acreage around Skerryvore, which could offer cost synergies. Harbour Energy is close to FID on the adjacent Talbot discovery and Shell has recently spudded the Edinburgh prospect. Development activity is also taking place in the Norwegian sector and in close proximity to Skerryvore at Tommeliten A (ConocoPhillips).

UK onshore wind farms receive fresh impetus

Last October, RenewableUK warned that the UK's onshore wind farm approvals were running well behind the pace required to keep the UK on track to meet its climate goals. This is expected to be addressed next week, with the FT reporting that Boris Johnson is set to ease planning rules to encourage more onshore wind farms to be built as part of the UK's new energy supply strategy, a positive for Parkmead's onshore wind farm ambitions.

Currently, Parkmead has one recently acquired operating wind farm and one development opportunity, both in Aberdeenshire, within its renewables portfolio.

In January, it made its second renewables acquisition – the producing 1.5MW grid-connected Kempstone Hill onshore wind farm in Scotland. The total cost of the acquisition was £4.28m, comprising £3.29m in cash and the assumption of a £990k project loan.

The acquisition had an economic date of 1 October 2021, so will have partially contributed to these results. For FY21 to end-September, Kempstone Hill generated £380k of revenue and £230k of adjusted EBITDA. For FY22, we assume an EBITDA contribution to Parkmead, taking into account the effective deal date, of £206k.

Kempstone Hill's wind farm benefits from an attractive inflation-linked, Feed-in Tariff for the life of the project through until 2036. The electricity generated is sold through a PPA, annual redetermination of which provides exposure to the recent large rise in wholesale electricity prices and will drive further revenue and EBITDA increases. We forecast an EBITDA contribution of £306k in FY23 (+49% y/y), although this also benefits from a full year's contribution from the asset.

This is Parkmead's first operating renewable energy asset and the company will benefit not only from its long-life, steady cash flows, but also the established relationships and expertise that come with the acquisition as it seeks to develop its own portfolio of renewable energy opportunities.

It is of particular relevance to Parkmead's other identified wind farm opportunity, where cost synergies exist. Parkmead has identified substantial wind energy potential at a ~1,200 acres site it owns that 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 the site.

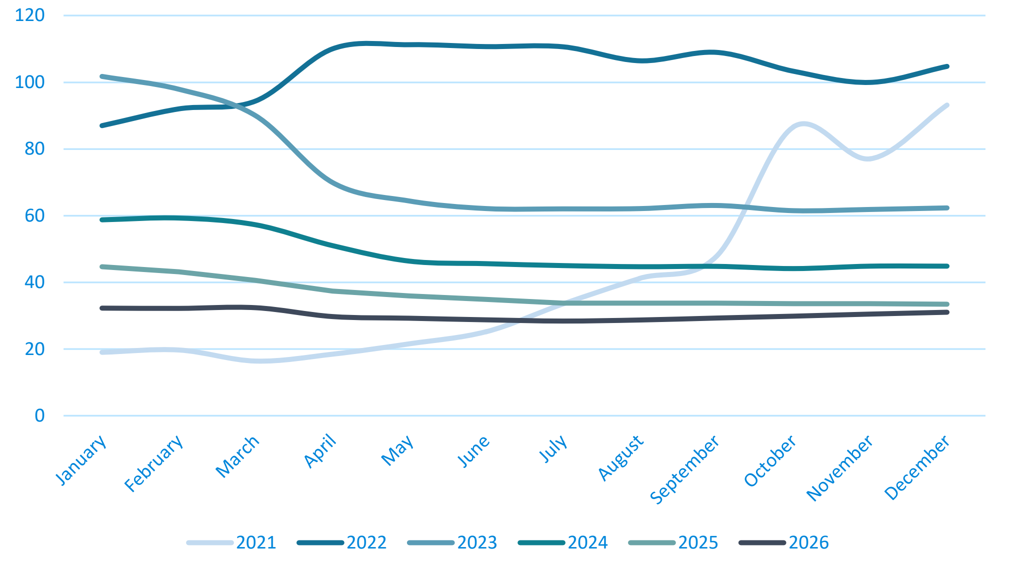
Within our risked NAV we currently include 3.7p/sh for the operating Kempstone Hill wind farm and just 3.2p/sh for the significantly larger Pitreadie wind farm opportunity, where we ascribe a 50% commercial chance of success.

The prospects for this project advancing and receiving regulatory approvals have been greatly enhanced by the renewed impetus behind low-cost and rapidly deployable domestic renewable supplies. Moreover, Parkmead has also identified potential upside opportunities within its portfolio, which could provide additional growth and diversification.

Higher gas price assumptions drive estimate upgrades

Gas prices, which were already high, have been propelled to record levels in recent weeks by the Russian invasion of Ukraine. The market is not expecting a quick resolution and return to normality either. Europe's reliance on Russia for ~40% of its gas supply has become a strategic issue, and the bloc needs to wean itself off by finding alternate sources (LNG) while accelerating the shift to renewables – the EU has an ambitious target of reducing Russian gas imports by two-thirds by the end of the year and has raised its goal for green hydrogen by 3.5x to 20m tonnes by 2030.

Figure 3: Dutch TTF gas price forward curve (€/MWh)



Source: FactSet

Reducing Europe's reliance on Russian gas is going to take time and the forward curve for Dutch TTF gas has risen sharply and is above €40/MWh into 2024, a level more than double the five-year average.

Structural change is needed within European gas markets, which will come at a cost and we are raising our gas price assumptions to reflect this. For FY22, we are raising our estimate 40% from €50/MWh to €70MWh, while our FY23 assumption is more than doubled to €65/MWh – still both well below the forward curve. We are also integrating the Kempstone Hill wind farm acquisition into our estimates for the first time.

Figure 4: Parkmead estimate changes summary

		FY 2022 estimates			FY 2023 estimates		
June yr end		**New**	**Old**	***% Chg***	**New**	**Old**	***% Chg***
Brent oil price	US$/bbl	80.0	70.0	*14%*	70.0	60.0	*17%*
Dutch TTF gas price	€/MWh	70.0	50.0	*40%*	65.0	30.0	*117%*
Production	boepd	403	426	*-5%*	485	470	*3%*
Exchange rate	£/US$	1.35	1.35	*0%*	1.35	1.35	*0%*
Exchange rate	€/US$	1.15	1.15	*0%*	1.15	1.15	*0%*
Revenue	**£'000**	**11,550**	**8,609**	***34%***	**12,953**	**5,780**	***124%***
Gross Profit	£'000	9,579	6,219	*54%*	10,634	3,297	*222%*
Adjusted EBITDA	**£'000**	**7,543**	**5,160**	***46%***	**8,840**	**2,105**	***320%***
EBIT	£'000	7,041	4,413	*60%*	8,314	1,383	*501%*
PBT	£'000	6,406	3,785	*69%*	7,652	725	*956%*
EPS	pence	2.77	1.40	*98%*	3.60	-0.25	*n.m.*
Net CFFO	**£'000**	**3,700**	**2,156**	***72%***	**4,411**	**438**	***907%***
Capex	£'000	1,139	1,139	*0%*	1,639	1,639	*0%*
Period-end cash	£'000	21,788	23,510	*-7%*	26,559	24,280	*9%*
Period-end debt	£'000	1,490	500	*198%*	990	0	*n.m.*
Net cash/(debt)	**£'000**	**20,298**	**23,010**	***-12%***	**25,569**	**24,280**	***5%***

Source: finnCap

This drives a significant increase to our earnings forecasts, with FY22 EBITDA increasing 46% to £7.5m and EPS doubling to 2.8p/sh. The gains are even larger for FY23, with EBITDA more than quadrupling to £8.8m and CFFO increasing 10x to £4.4m.

Valuation

We also raised our FY24 and FY25 gas price forecasts to €40/MWh and €30/MWh within our model, although we kept our long-term assumption unchanged at €20/MWh. This drives a 6p/sh (33%) increase to our valuation of Parkmead's Dutch gas business, to 19p/sh.

Our risked NAV and price target only changes marginally however, from 159p to 160p/sh as the higher gas price is offset by a lower period end net cash position (-5p/sh). However, of note is the fact that we have not lowered our commercial risking of any of Parkmead's potential oil or gas projects, which is conservative given the current environment.

Figure 5: Parkmead net asset value

Net Asset Valuation	Net resource mmboe	NPV/bbl US$/boe	Unrisked NPV US$m	p/sh	Geological CoS	Commercial CoS	Dry hole cost US$m	Risked NPV US$m	p/sh
G&A (3 years)			-6.9	-4.6				-6.9	-4.6
Net cash / (debt)			26.5	17.8				26.5	17.8
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 2023e EBIT)			0.3	0.2				0.3	0.2
Pitreadie Farm Ltd land (@ cost adjusted for land sales)			6.1	4.1				6.1	4.1
Kempstone Hill 1.5 MW Wind Farm			5.6	3.7				5.6	3.7
			20.6	**13.8**				**20.6**	**13.8**
Producing assets									
Netherlands producing	2.5	11.00	28.0	18.8	100%	100%		28.0	18.8
Core value:			**41.8**	**32.6**				**41.8**	**32.6**
Contingent resource:									
Pitreadie 20 MW Wind Farm			9.5	6.4		50%		4.8	3.2
Netherlands - Ottoland	0.7	7.15	4.9	3.3	100%	50%		2.5	1.7
Netherlands - Papekop	0.9	7.15	6.4	4.3	100%	50%		3.2	2.1
UK - Greater Perth Area	76.9	7.11	546.7	367.1	100%	25%		136.7	91.8
UK - Fynn Beauly	25.1	2.50	62.8	42.2	100%	10%		6.3	4.2
UK - Fynn Andrew	9.3	2.50	23.1	15.5	100%	10%		2.3	1.6
Contingent value:			**653.4**	**438.8**				**155.7**	**104.5**
Prospective resource:									
Netherlands - Drenthe V - LDS-A/B	3.4	6.44	21.9	14.7	43%	50%	1.5	3.2	2.1
UK - Skerryvore (Mey+Ekofisk+Tor)	46.6	6.61	308.1	206.9	24%	30%	5.8	16.3	11.0
UK - Ruvaal	9.3	3.55	33.2	22.3	17%	0%	6.2	0.0	0.0
UK - Blackadder	14.1	6.64	93.7	63.0	41%	50%	5.3	13.9	9.3
UK - Sanda South	86.0	3.20	275.0	184.6	12%	0%	30.8	0.0	0.0
UK - Sanda North	194.0	3.20	620.3	416.5	15%	0%	29.8	0.0	0.0
UK - Davaar	204.0	2.84	579.8	389.3	18%	0%	28.7	0.0	0.0
Prospective value:			**1,910.0**	**1,282.6**				**30.3**	**22.4**
Total - Core + Contingent + Prospective:			**2,605.3**	**1,754.0**				**227.7**	**159.6**

Source: finnCap
Discounted to 1 January 2022 at 10%.

Income statement		2019A	2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jun	Jul
Sales	**£m**	**8.3**	**4.1**	**3.6**	**11.6**	**13.0**
Cost of sales	£m	-2.3	-2.0	-1.3	-1.5	-1.8
Gross profit	**£m**	**6.0**	**2.1**	**2.3**	**10.1**	**11.2**
Operating expenses	£m	-0.6	-1.8	-3.3	-2.5	-2.3
EBITDA (adjusted)	**£m**	**5.4**	**0.3**	**-0.9**	**7.5**	**8.8**
Depreciation	£m	-0.2	-0.8	-0.6	-0.5	-0.5
Amortisation	£m	0.0	0.0	0.0	0.0	0.0
EBIT (adjusted)	**£m**	**5.2**	**-0.5**	**-1.5**	**7.1**	**8.4**
Associates/other	£m	0.0	0.4	-0.4	0.0	0.0
Net interest	£m	-0.3	-0.6	-0.7	-0.6	-0.7
PBT (adjusted)	**£m**	**4.8**	**-0.7**	**-2.6**	**6.5**	**7.7**
restructuring costs	*£m*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
share based payments	*£m*	*-0.0*	*-0.1*	*0.0*	*-0.1*	*-0.1*
other adjustments	*£m*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Total adjustments	£m	-0.0	-0.1	-10.9	-0.1	-0.1
PBT (stated)	**£m**	**4.8**	**-0.8**	**-13.5**	**6.4**	**7.7**
Tax charge	£m	-2.4	0.3	-0.4	-3.4	-3.7
tax rate	*%*	*49.7*	*n/a*	*n/a*	*52.8*	*48.7*
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	**£m**	**2.4**	**-0.5**	**-13.8**	**3.0**	**3.9**
Tax effect of adjustments / other	£m	0.0	1.3	10.9	0.3	0.0
Adjusted earnings	**£m**	**2.5**	**0.9**	**-3.0**	**3.3**	**3.9**
shares in issue (year end)	*m*	*98.9*	*108.6*	*109.2*	*109.2*	*109.2*
shares in issue (weighted average)	*m*	*98.9*	*106.3*	*109.2*	*109.2*	*109.2*
shares in issue (fully diluted)	*m*	*100.7*	*110.8*	*118.5*	*118.5*	*118.5*
EPS (adjusted, fully diluted)	**p**	**2.4**	**0.8**	**-2.5**	**2.8**	**3.3**
EPS (stated)	p	2.4	-0.5	-12.7	2.8	3.6
DPS	**p**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Growth analysis (adjusted basis where applicable)						
Sales growth	%	17.8%	-50.7%	-11.6%	220.1%	12.1%
EBITDA growth	%	212.5%	-94.9%	-430.8%	926.2%	17.2%
EBIT growth	%	197.1%	-109.5%	-212.3%	565.4%	18.0%
PBT growth	%	182.2%	-115.4%	-248.6%	350.0%	19.3%
EPS growth	%	211.8%	-68.0%	-422.6%	211.6%	17.5%
DPS growth	%	n/m	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	72.4%	51.2%	64.9%	87.3%	86.2%
EBITDA margin	%	65.1%	6.8%	-25.3%	65.3%	68.3%
EBIT margin	%	62.4%	-12.0%	-42.2%	61.4%	64.6%
PBT margin	%	58.4%	-18.2%	-71.6%	55.9%	59.5%
Net margin	%	29.8%	21.3%	-82.9%	28.9%	30.3%

Cash flow		2019A	2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jun	Jul
EBITDA	£m	5.4	0.3	-0.9	7.5	8.8
Net change in working capital	£m	-0.5	-0.5	-1.1	0.0	0.0
Share based payments	£m	-0.0	-0.1	0.0	-0.1	-0.1
Profit/(loss) on sale of assets	£m	0.0	-0.4	0.4	0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0	0.0
Other items	£m	-0.2	1.5	0.4	0.4	0.2
Cash flow from operating activities	**£m**	**4.7**	**0.9**	**-1.2**	**7.9**	**9.0**
Cash interest	£m	0.2	0.1	0.0	-0.0	-0.1
Tax paid	£m	-1.8	-1.9	-0.1	-4.2	-4.6
Capex	£m	-4.0	-3.8	-0.7	-1.1	-1.6
Other items	£m					
Free cash flow	**£m**	**-0.8**	**-4.7**	**-2.0**	**2.5**	**2.7**
Disposals	£m					
Acquisitions	£m	6.6	0.0	4.0	-3.8	0.0
Dividends on ord shares	£m					
Other cashflow items	£m	1.1	-0.2	-4.4	-0.4	2.1
Issue of share capital	£m	0.0	0.0	0.0	0.0	0.0
Net change in cash flow	**£m**	**6.9**	**-5.0**	**-2.3**	**-1.6**	**4.8**
Opening net cash (debt)	£m	23.8	30.7	25.7	23.4	21.8
Closing net cash (debt)	**£m**	**30.7**	**25.7**	**23.4**	**21.8**	**26.6**

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	88.0%	319.6%	n/m	105.2%	101.7%
Cash conversion (free cash flow / EBITDA)	%	-15.8%	n/m	214.2%	33.6%	30.8%
Underlying free cash flow (capex = depreciation)	£m	2.9	-1.7	-1.9	3.2	3.9
Cash quality (underlying FCF / adjusted earnings)	%	119.0%	-197.8%	63.1%	96.6%	99.0%
Investment rate (capex / depn)	x	18.4	5.0	1.1	2.5	3.5
Interest cash cover	x	n/a	n/a	net cash	324.0	176.2
Dividend cash cover	x	n/a	n/a	n/a	n/a	n/a

Balance sheet		2019A	2020A	2021A	2022E	2023E
Year end:		**Jun**	**Jun**	**Jun**	**Jun**	**Jul**
Tangible fixed assets	£m	11.8	21.4	19.3	24.6	24.7
Goodwill	£m	2.2	2.2	2.2	2.2	2.2
Other intangibles	£m	34.1	36.1	29.5	29.9	30.8
Other non current assets	£m	0.0	2.9	2.9	2.9	0.0
inventories	*£m*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*
trade receivables	*£m*	*0.7*	*1.4*	*1.4*	*1.4*	*1.4*
trade payables	*£m*	*-4.6*	*-4.4*	*-3.5*	*-3.5*	*-3.1*
Net working capital	£m	-3.9	-2.9	-2.1	-2.0	-1.7
Other assets	£m	2.9	0.0	0.0	0.0	0.0
Other liabilities	£m	-9.5	-10.4	-17.0	-16.7	-16.5
Gross cash & cash equivalents	£m	30.7	25.7	23.4	21.8	26.6
Capital employed	£m	68.3	74.9	58.2	62.6	66.1
Gross debt	£m	0.0	3.6	0.5	1.5	1.0
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	68.3	71.3	57.7	61.1	65.1
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	68.3	74.9	58.2	62.6	66.1

Leverage analysis						
Net debt / equity	%	no debt	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	no debt	net cash	n/a	net cash	net cash
Liabilities / capital employed	%	0.0%	4.8%	0.9%	2.4%	1.5%

Working capital analysis						
Net working capital / sales	%	-47.2%	-70.9%	-57.4%	-17.7%	-13.0%
Net working capital / sales	days	-172	-259	-210	-64	-48
Inventory (days)	days	0	12	7	2	2
Receivables (days)	days	29	126	137	43	38
Payables (days)	days	201	397	353	109	88

Capital efficiency & intrinsic value						
Adjusted return on equity	%	3.6%	1.2%	-5.2%	5.5%	6.0%
RoCE (EBIT basis, pre-tax)	%	7.6%	-0.7%	-2.6%	11.3%	12.7%
RoCE (underlying free cash flow basis)	%	4.3%	-2.3%	-3.2%	5.2%	5.9%
NAV per share	p	69.0	65.7	52.9	56.0	59.6
NTA per share	p	32.4	30.5	23.9	26.6	29.4

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