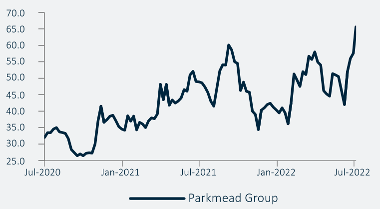
29 July 2022

Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	FY Nov
Price	**65.6p**
Target price	164.0p
Upside	150%
Market cap	**£71.7m**
Net debt/(cash)	-£19.6m
Other EV adjustments	£0.0m
Enterprise value	£52.0m

What's changed?	From	To
Adjusted EPS	3.7	n/c
Target price	164.0	n/c

Share price performance



%	1M	3M	12M
Actual	47.7	15.9	38.4

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*

GPA project farm-out launched

Parkmead has kicked-off the partnering process for the GPA project, one of the North Sea's largest remaining undeveloped oil fields. The environment for Parkmead to deliver on its farmout ambitions has never been better, supported by strong oil prices, the need for greater domestic energy security following Russia's invasion of Ukraine, and a UK tax framework designed to incentivise new North Sea development projects. Our risked NAV and price target remain unchanged at 164p/sh, however, there is significant upside potential to our valuation in the event of successful partnering, not to mention Parkmead's exposure to exceptional European gas prices.

- **GPA farm-out process launched.** Parkmead has formally started the farm-out of its 100% owned Greater Perth Area (GPA) project in the UK North Sea, engaging a leading energy corporate finance advisor, Gneiss Energy Ltd, to manage the process. The core Perth field holds an estimated 55 mmboe (P50) of recoverable resources, with the wider GPA project containing 75-130 mmboe (Perth, Dolphin, Northern Area). The GPA project is one of the North Sea's largest undeveloped oil projects and has been fully appraised, with the constituent fields flow testing good-quality light oil at rates of up to 6,000 bopd. Transportation studies for the base-case GPA development concept have been completed and have confirmed the technical feasibility of transporting and processing Perth fluids all the way to shore, and Parkmead is in the process of initiating a net-zero study to meet regulatory requirements.
- **Favourable farm-out environment.** The recent UK windfall tax on UK oil and gas producers should help Parkmead's farm-out efforts. The Energy Profits Levy increases the UK upstream headline tax rate from 40% to 65% and will be in place until the end of 2025. The levy is designed to encourage higher investment in the North Sea via a 'super-deduction' style investment allowance, which doubles the amount of tax relief available, from 46p to 91p for every £1 of new investment. This heavily incentivises existing producers to pursue development projects and Parkmead's GPA project is ideally positioned to benefit, requiring significant capex over the next three and a half years during which the levy applies, with start-up expected once the levy rolls off.
- **Significant valuation upside potential.** In our Parkmead NAV, we model 80 mmbbls for the GPA project, the low end of the expected volume range, which on an unrisked basis we estimate has an NPV10 of £403m (366p/sh) at US$60/bbl Brent. For the core Perth field alone, Parkmead estimates that every US$10/bbl increase in the long-term oil price adds ~£130m to the NPV. We assign a 25% commercial risking to this valuation to account for the need for partnering and financing, including 91p in our 164p/sh risked NAV. Clearly, this valuation has significant upside potential from a number of areas – higher development volumes, stronger long-term oil prices (Brent futures are above US$75/bbl all the way out to 2029) and de-risking from a successful partnering process.

Key estimates		**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
Year end:		**Jun**	**Jun**	**Jun**	**Jun**	**Jun**
Revenue	£m	8.3	4.1	3.6	13.1	14.1
Adj EBITDA	£m	5.4	0.3	-0.9	9.3	10.2
Adj EBIT	£m	5.2	-0.5	-1.5	8.8	9.7
Adj PBT	£m	4.8	-0.7	-2.6	8.2	9.1
Adj EPS	p	2.4	0.8	-2.5	3.7	4.0
DPS	p	0.0	0.0	0.0	0.0	0.0
Key valuation metrics						
EV/EBIT (adj)	x	10.1	-106.6	-34.1	5.9	5.4
P/E (adj)	x	26.8	83.8	-26.0	17.8	16.4
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.2%	-6.6%	-2.7%	5.1%	4.8%
Pre-tax ROCE	%	7.6%	-0.7%	-2.6%	13.9%	14.3%