23 November 2022

PARKMEAD GROUP*

European gas exposure drives record results

Parkmead has reported record FY results, driven by its unhedged exposure to strong European gas prices via its low-cost onshore Dutch gas business. This exposure could be increased further via an impending two-well drilling programme that has the potential to deliver significant additional volumes rapidly. Parkmead offers more than just gas price exposure though: its UK North Sea and Renewables prospects have been greatly enhanced by strong energy prices, a favourable regulatory environment and the investment incentive provided by UK windfall taxes. Parkmead's balanced portfolio, deep project inventory and strong balance sheet position it well for the current storm and offer investors multiple value accretion opportunities.

- **FY22 to end-June was a record year…** Revenue was up 236% to £12.1m, driven by the sharp increase in European gas prices. Gross profit jumped 6x to £10.8m, an impressive 89% margin, due to the strong operating leverage at its low-cost Dutch gas business. Strong cost controls helped adjusted EBITDAX of £9.1m beat our forecast by 2%. Adjusted profit after-tax of £3.6m was also 3% ahead. Net cash flow from operations of £4.5m comfortably beat our £2.7m forecast and cash ended the year higher-than-expected at £23.3m (fCap £20.2m). With minimal debt (<£1m), Parkmead's balance sheet remains very strong, providing the ammunition to pursue its multiple organic growth opportunities while also considering acquisitions.
- **Estimate changes.** We are making only minor changes to our FY23 pre-tax estimates, largely to reflect higher inflationary pressures. Adjusted EBITDA is trimmed 3% to £8.2m and PBT cut 4% to £16.4m. Adjusted net profit falls more materially, by 13% to £8.1m due to a higher tax provision; still nearly a 6x increase y/y. Net cashflow from operations is largely unchanged at £9.9m. However, our year-end cash forecast falls by £4.5m to £12.5m due to higher expected decommissioning expenditure.

Clearing the decks. FY23 decommissioning spend is now anticipated to be £19.2m versus our £12m forecast. This expenditure relates to historical well decommissioning on Athena, Platypus and in the Greater Perth Area (GPA). Some of the increase is due to Parkmead's decision to accelerate decommissioning activity to mitigate any market tightness and avoid inflationary/supply chain issues. Some of it also reflects Parkmead's desire to be a good steward of assets, especially with the UK 33rd Licensing Round ongoing. A significant portion of the costs relate to the GPA and are under dispute with a historic licence owner, so may ultimately be recouped. Moreover, taking on this activity now will allow Parkmead to focus on its growth opportunities free from future abandonment liability risk. Looking into FY24, we expect another strong year from Parkmead's Dutch gas business to help its cash position bounce back sharply to £18m, more than sufficient for the ~£10m expected cost of the Skerryvore exploration well.

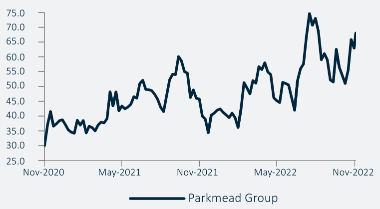
Key estimates		2020A	2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	4.1	3.6	12.1	22.1	19.4
Adj EBITDA	£m	0.3	-0.9	8.2	17.9	14.9
Adj EBIT	£m	-0.5	-1.5	7.5	17.2	14.2
Adj PBT	£m	-0.7	-2.6	4.1	16.5	13.5
Adj EPS	p	0.5	-2.2	1.2	6.8	5.5
DPS	p	0.0	0.0	0.0	0.0	0.0
Key valuation metrics						
EV/EBIT (adj)	x	-100.6	-32.2	6.5	2.9	0.0
P/E (adj)	x	149.2	-30.5	58.0	10.0	12.4
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-6.4%	-2.7%	-1.2%	-17.9%	8.2%
Pre-tax ROCE	%	-0.7%	-2.6%	12.9%	25.9%	19.6%

Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	H1 May
Price	**68.0p**
Target price	187.0p
Upside	175%
Market cap	**£74.3m**
Net debt/(cash)	-£25.2m
Other EV adjustments	£0.0m
Enterprise value	£49.1m

What's changed?	From	To
Adjusted EPS	7.9	6.8
Target price	194.0	187.0

Share price performance



%	1M	3M	12M
Actual	26.4	-8.5	47.8

Company description

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

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European gas exposure drives record results

Income statement		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Sales	£m	3.6	12.1	22.1	19.4
Gross profit	£m	2.3	11.6	20.7	17.8
EBITDA (adjusted)	£m	-0.9	8.2	17.9	14.9
EBIT (adjusted)	**£m**	**-1.5**	**7.5**	**17.2**	**14.2**
Associates/other	£m	-0.4	-2.2	0.0	0.0
Net interest	£m	-0.7	-1.2	-0.7	-0.7
PBT (adjusted)	**£m**	**-2.6**	**4.1**	**16.5**	**13.5**
Total adjustments	£m	-10.9	-0.1	-0.1	-0.1
PBT (stated)	£m	-13.5	4.0	16.4	13.5
Tax charge	£m	-0.4	-4.8	-8.3	-7.0
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-13.8	-0.8	8.1	6.5
Adjusted earnings	**£m**	**-2.6**	**1.4**	**8.1**	**6.5**
Shares in issue (year end)	m	109.2	109.3	109.3	109.3
EPS (stated)	p	-12.7	-0.7	7.4	5.9
EPS (adjusted, fully diluted)	**p**	**-2.2**	**1.2**	**6.8**	**5.5**
DPS	**p**	**0.0**	**0.0**	**0.0**	**0.0**

Growth analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	-11.6%	236.2%	81.8%	-12.1%
EBITDA growth	%	-430.8%	n/m	117.0%	-16.5%
EBIT growth	%	-212.3%	592.1%	128.8%	-17.0%
PBT growth	%	-248.6%	256.8%	306.7%	-17.8%
EPS growth	%	-589.7%	152.6%	481.6%	-19.9%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	64.9%	95.4%	93.8%	91.7%
EBITDA margin	%	-25.3%	67.8%	80.9%	76.9%
EBIT margin	%	-42.2%	61.8%	77.8%	73.4%
PBT margin	%	-71.6%	33.4%	74.7%	69.9%
Net margin	%	-73.3%	11.5%	36.7%	33.4%

Cash flow		**2021A**	**2022A**	**2023E**	**2024E**
Year end:		**Jun**	**Jun**	**Jun**	**Jun**
EBITDA	£m	-0.9	8.2	17.9	14.9
Net change in working capital	£m	-1.1	-0.6	0.0	0.0
Other operating items	£m	0.8	0.4	0.4	0.3
Cash flow from op. activities	**£m**	**-1.2**	**8.0**	**18.2**	**15.2**
Cash interest	£m	0.0	0.0	-0.1	-0.1
Cash tax	£m	-0.1	-3.5	-8.3	-7.0
Capex	£m	-0.7	-3.8	-4.0	-2.1
Other items	£m	-0.0	-1.7	-19.2	0.0
Free cash flow	**£m**	**-2.0**	**-0.9**	**-13.3**	**6.1**
Acquisitions / disposals	£m				
Dividends	£m				
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	-4.4	-0.1	2.5	-0.4
Net change in cash flow	**£m**	**-2.4**	**-0.1**	**-10.8**	**5.7**
Opening net cash (debt)	£m	25.0	25.8	25.2	11.5
Closing net cash (debt)	**£m**	**25.8**	**25.2**	**11.5**	**17.2**

Cash flow analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	n/m	97.7%	102.1%	102.0%
Cash conv'n (FCF / EBITDA)	%	217.6%	-10.9%	-74.7%	40.7%
U/lying FCF (capex = depn)	£m	-1.9	2.2	-10.0	7.5
Cash quality (u/l FCF / adj earn)	%	72.6%	155.6%	-124.0%	115.5%
Investment rate (capex / depn)	x	1.1	5.2	5.7	3.1
Interest cash cover	x	net cash	n/a	255.6	201.5
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	-57.4%	-170.8%	-5.2%	-3.9%
Net working capital / sales	days	-210	-623	-19	-14
Inventory (days)	days	7	1	1	1
Receivables (days)	days	137	61	33	38
Payables (days)	days	353	685	53	53

Balance sheet		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m	19.3	22.5	23.3	22.7
Goodwill & other intangibles	£m	31.7	35.4	37.6	39.3
Other non current assets	£m	2.9	3.1	0.2	0.2
Net working capital	£m	-2.1	-20.7	-1.1	-0.8
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	-17.0	-5.6	-6.2	-6.8
Gross cash & cash equivs	£m	23.4	23.3	12.5	18.1
Capital employed	**£m**	**58.2**	**57.9**	**66.1**	**72.7**
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	65.2	71.8
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	**£m**	**58.2**	**57.9**	**66.1**	**72.7**

Leverage analysis		2021A	2022A	2023E	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	net cash	net cash
Liabilities / capital employed	%	0.9%	1.6%	1.4%	1.3%

Capital efficiency & intrinsic value		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	-4.6%	2.4%	12.4%	9.0%
RoCE (EBIT basis, pre-tax)	%	-2.6%	12.9%	25.9%	19.6%
RoCE (u/lying FCF basis)	%	-3.3%	3.7%	-15.2%	10.3%
NAV per share	p	52.9	52.2	59.6	65.7
NTA per share	p	23.9	19.7	25.3	29.7

European gas exposure drives record results

Parkmead has reported record FY results to the end of June, driven by its unhedged exposure to strong European gas prices via its low-cost onshore Dutch gas business, which also benefited from the well-timed Netherlands gas royalty acquisition ahead of Russia's invasion of Ukraine.

The structural shift in European gas prices since the Ukraine War has provided a strong incentive to reinvigorate investment into Parkmead's Dutch gas business and an impending two-well drilling programme has the potential to deliver significant additional volumes rapidly.

While European gas has stolen the headlines, Parkmead's balanced European energy portfolio offers much more. The UK North Sea is open for business again and the prospects for Parkmead's ongoing farm-out of the Greater Perth Area have been greatly enhanced by strong oil prices, a favourable regulatory environment and the investment incentive provided by UK upstream windfall taxes. A successful conclusion to this process in the coming months has the potential to unlock significant value and progress is said to be encouraging.

Parkmead also recently raised its exposure to high-impact exploration, raising its stake in the Skerryvore prospect in the Central North Sea, while it is also looking to boost its upstream project hopper in the recently announced 33rd UK licensing round. Its renewable energy business has also been enhanced by a favourable regulatory regime and elevated electricity prices.

Parkmead's balanced portfolio, deep project inventory and strong balance sheet position it well for the current storm and offer investors multiple value accretion opportunities.

Financial performance

Figure 1: Parkmead FY22 results versus expectations

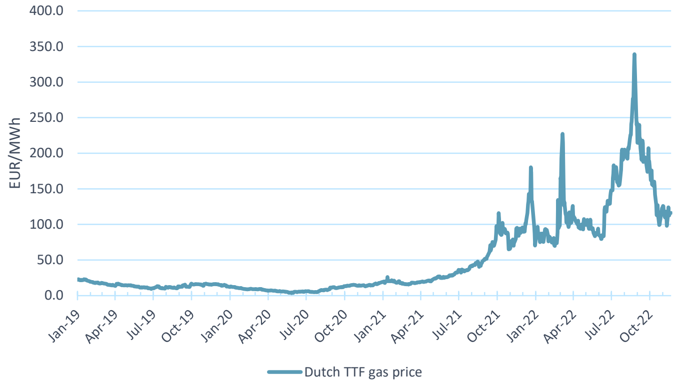
FY results to end-June		FY22A	FY22E	% Chg	FY21A	% Chg y/y
Gross production	mmcfd	21.7	21.8	*0%*	30.3	*-28%*
Dutch TTF gas price	€/MWh	81.5	81.5	*0%*	16.6	*392%*
Revenue	**£'000**	**12,129**	**12,149**	***0%***	**3,608**	***236%***
Cost of sales	£'000	(1,370)	(1,555)	*-12%*	(1,835)	*-25%*
Gross Profit	**£'000**	**10,759**	**10,595**	***2%***	**1,773**	***507%***
Exploration expense	£'000	(1,116)	(468)	*138%*	(11,116)	*-90%*
Admin expense	£'000	(2,231)	(2,145)	*4%*	(3,040)	*-27%*
Exceptional charges	£'000	(2,205)	-	-	(388)	-
Adjusted EBIT	**£'000**	**7,412**	**7,982**	*-7%*	**(1,528)**	*-585%*
Adjusted EBITDAX	£'000	9,085	8,943	*2%*	(958)	*n.m.*
Net finance expense	£'000	(1,244)	(638)	*95%*	(671)	*85%*
Adjusted PBT	**£'000**	**6,168**	**7,344**	*-16%*	**(2,199)**	*-380%*
Tax	£'000	(4,777)	(3,837)	*24%*	(364)	*1212%*
Adj. after-tax profit	**£'000**	**3,596**	**3,507**	*3%*	**(2,175)**	*n.m.*
Net cash flow from operations	£'000	4,530	2,688	*69%*	(1,315)	*n.m.*
Capex	£'000	(548)	(1,510)	*-64%*	(369)	*49%*
Net (acquisitions)/disposals	£'000	(2,363)	(3,777)	*-37%*	3,690	*n.m.*
Period-end cash	**£'000**	**23,263**	**20,169**	***15%***	**23,378**	***0%***
Period-end debt	£'000	(948)	(500)	*90%*	(500)	*90%*
Period-end net cash/(debt)	**£'000**	**22,315**	**19,669**	***13%***	**22,878**	***-2%***

Source: Parkmead, finnCap

FY22 to end-June was a record year for Parkmead, with revenue up 236% y/y to £12.1m, in line with our forecast and driven by the sharp increase in European gas prices, especially in H2 following the onset of the Ukraine War.

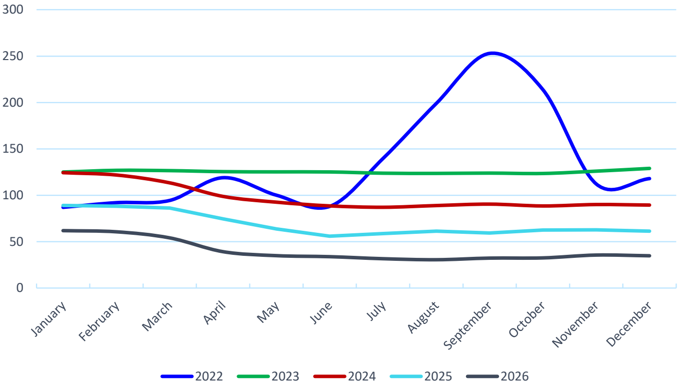
European gas prices have fallen sharply from their exceptional peaks following a mild start to winter and high gas storage levels, while a flotilla of LNG cargoes waits in the wings offshore. This has eased concerns over gas shortages this winter. Nevertheless, gas prices remain very high by historical standards, with Dutch TTF gas still above €100/MWh while the forward curve for Q1 2023 is ~€125/MWh.

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



Source: FactSet

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



Source: FactSet

In FY22, Parkmead generated £12.1m of revenue at a realised gas price of ~€80/MWh. In FY23, we expect this to rise to £22m assuming a gas price realisation of €125/MWh (YTD €175/MWh, FY23 forward curve €150/MWh).

Gross profit jumped 6x to £10.8m (fCap £10.6m), representing an impressive 89% gross margin, the result of strong operating leverage at its low-cost Dutch gas business, where operating costs are under US$9/boe and largely fixed.

Admin expense fell 27% y/y to £2.2m with underlying staff costs, before share-based payments, reduced from £2.0m in FY21 to £1.7m.

Adjusted EBIT (before impairments and asset sales) of £7.4m was 7% below our forecast due to higher exploration expense, but a sharp turnaround on last year's £1.5m loss. Adjusted EBITDAX of £9.1m was 2% ahead of our forecast and registered a strong y/y improvement.

Net finance expense of £1.2m was almost double our forecast, although this difference relates to the non-cash unwinding of the discount on the decommissioning provision. Tax was also higher than expected, £4.8m versus our £3.8m estimate. Nevertheless, adjusted post-tax profit of £3.6m was 3% ahead of our forecast and a record for the company.

Net cash flow from operations of £4.5m comfortably beat our £2.7m forecast, helped by a higher non-cash exploration write-off (£860k vs fCap £150k) and a smaller working capital outflow (£0.6m vs fCap £1.6m).

Capex was also lower than forecast, £0.5m versus our £1.5m estimate, which contributed to a higher-than-expected year-end cash position of £23.3m (fCap £20.2m). With minimal debt (<£1m), Parkmead's balance sheet remains very strong, providing the ammunition to pursue its multiple organic growth opportunities while also considering acquisitions.

Estimate changes

We have updated our FY23 forecasts and are releasing FY24 estimates following these results.

Figure 4: Parkmead estimate changes

	FY 2022	FY 2023 estimates			FY 2024 estimates	
June yr end	**Actual**	**New**	**Old**	***% Chg***	**New**	***% Chg y/y***
Brent oil price	91.2	90.0	90.0	*0%*	80.0	*-11%*
Dutch TTF gas price	81.5	125.0	125.0	*0%*	100.0	*-20%*
Production	361	434	436	*0%*	477	*10%*
Exchange rate	1.33	1.15	1.15	*0%*	1.00	*-13%*
Exchange rate	1.13	1.00	1.00	*0%*	1.00	*0%*
Revenue	**12,129**	**22,054**	**22,151**	***0%***	**19,384**	***-12%***
Gross Profit	10,759	19,888	20,200	*-2%*	17,011	*-14%*
Adjusted EBITDA	**8,225**	**8,225**	**8,475**	***-3%***	**17,851**	***117%***
Adjusted EBIT	7,412	17,063	17,679	*-3%*	14,139	*-17%*
Net finance expense	(1,244)	(682)	(679)	*0%*	(686)	*1%*
Adjusted PBT	**6,168**	**16,381**	**17,000**	***-4%***	**13,452**	***-18%***
Tax	(4,777)	(8,290)	(7,680)	*8%*	(6,972)	*-16%*
Adjusted net profit	**1,391**	**8,091**	**9,320**	***-13%***	**6,480**	***-20%***
Net CFFO	4,530	9,936	10,027	*-1%*	8,234	*-17%*
Capex	(3,785)	(4,000)	(3,130)	*28%*	(2,087)	*-48%*
Decommissioning payments	(1,667)	(19,200)	(12,000)	*60%*	-	-
Period-end cash	23,263	12,452	17,048	*-27%*	18,149	*46%*
Period-end debt	948	(948)	-	-	(948)	*0%*
Net cash/(debt)	**22,315**	**11,504**	**17,048**	***-33%***	**17,201**	***50%***

Source: finnCap

For FY23 we are making only minor changes to our pre-tax estimates, largely to reflect higher inflationary pressures, resulting in a 3% reduction in adjusted EBITDA to £8.2m and a 4% cut to adjusted PBT to £16.4m.

Adjusted net profit falls more materially, by 13% to £8.1m, due to a higher tax provision after we underestimated FY22. Nevertheless, this still represents nearly a 6x increase year-on-year, with Parkmead's Dutch gas business set for an exceptional year – revenue from the Netherlands for the four-months to end-October 2022 was in excess of €9.0m (£7.8m) and Parkmead remains 100% unhedged.

Net cashflow from operations is largely unchanged ay £9.9m. However, our year-end cash forecast falls by £4.5m to £12.5m. This is primarily the result of higher decommissioning spend, now anticipated to be £19.2m versus our £12m forecast.

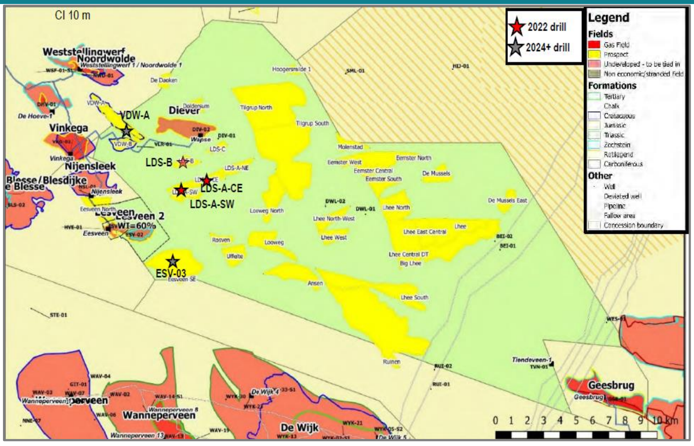
This expenditure relates to historical well decommissioning on Athena, Platypus and in the Greater Perth Area (GPA). Some of the increase is due to Parkmead's decision to accelerate decommissioning activity to mitigate any market tightness and avoid inflationary/supply chain issues. Some of it also reflects Parkmead's desire to be a good steward of assets, especially with the UK 33rd Licensing Round ongoing. A significant portion of the costs relating to the GPA are under dispute with a historic licence owner, so may ultimately be recouped. Moreover, taking on this activity now will allow Parkmead to focus on its growth opportunities free from future abandonment liability risk.

Looking into FY24, we expect another strong year from Parkmead's Dutch gas business to help its cash position bounce back sharply to £18m, more than sufficient for the ~£10m expected cost of the Skerryvore high-impact exploration well.

Upcoming two-well Dutch gas drilling campaign

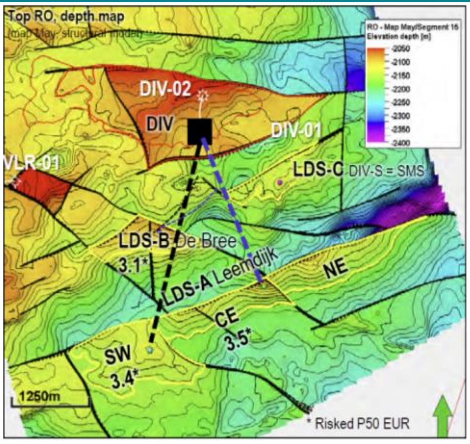
Noteworthy is the fact that our FY23 estimates assume a degree of success with Parkmead's upcoming gas drilling programme onshore the Netherlands. Mobilisation of the rig is underway for the two-well LDS drilling campaign on the Drenthe VI licence (PMG 7.5%).

Figure 5: Drenthe VI licence prospect map



Source: Parkmead

Figure 6: LDS-A/B drilling locations



Source: Parkmead

The LDS A and B exploration prospects have combined estimated Pmean gas-in-place volumes of 37 bcf in Rotliegendes reservoirs and high geological chances of success of between 44-65%. The wells will be drilled from the existing Diever well site keeping drilling costs to a minimum – an estimated £1.3m net for the two wells.

The result of the first well is expected around year-end, with the second following in Q1 2023. Construction work to facilitate the potential tie-in of the new wells is largely complete, meaning in the success case, these wells can be rapidly brought onstream.

Parkmead estimates the wells have the potential to double Diever output if successful, adding up to 5,900 boepd gross of near-term production. In our estimates, we have assumed around a third of this volume for FY23.

Also of note is that we have not factored in any windfall taxes in the Netherlands, which is a potential risk. The Dutch government has proposed an increase in sales tax and an additional windfall tax on oil and gas profits for 2023 and 2024, although we note our gas price forecast is below the forward curve.

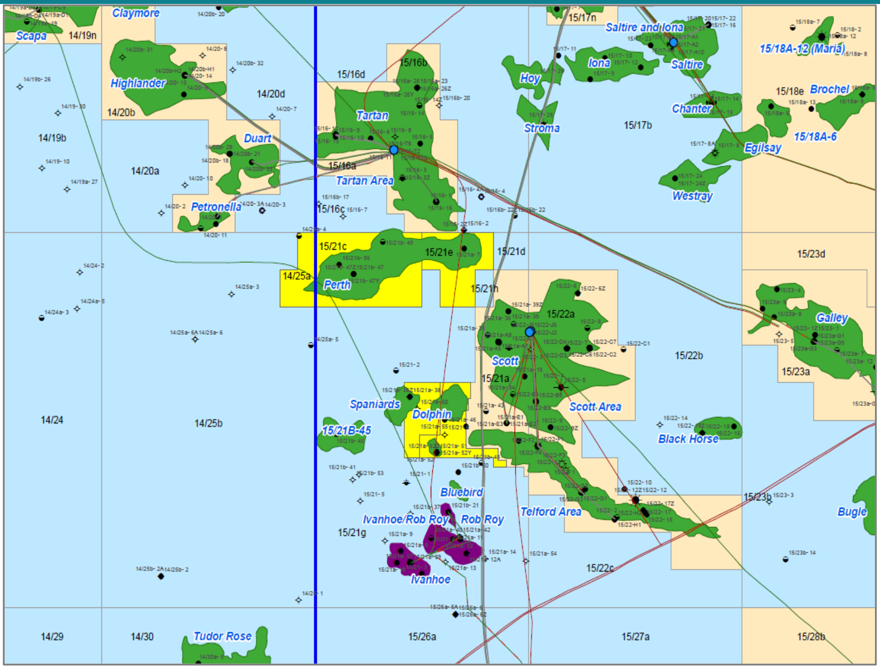
Multiple UKCS portfolio opportunities

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

Greater Perth Area development

Parkmead's 100%-owned Greater Perth Area (GPA) development opportunity in the UK Central North Sea is the major prize within its portfolio. It is one of the largest remaining undeveloped oil projects in the North Sea and includes three discovered fields – Perth, Dolphin, and NE Perth – with potential 2P reserves of 75-130 mmbbls (we conservatively model an 80 mmbbl development). Strong oil prices alongside the investment incentives provided by the windfall tax and a more favourable North Sea investment environment have dramatically improved Parkmead's chances of finding a farm-out partner to take the development forward.

Figure 7: Greater Perth Area acreage map



Source: Parkmead

The GPA project is one of the largest undeveloped oil projects in the UKCS and has the potential to unlock oil-in-place of over 900 mmbbls within the vicinity. The Perth field has been fully appraised with five reservoir penetrations and extended well tests, flowing good quality light oil at rates of up to 6,000 bopd.

Transportation studies for the base case GPA development concept have been completed, which 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.

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 unlocking 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 less than US$40/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 126p/sh to our 188p/sh risked NAV at a long-term Brent oil price of US$70/bbl.

Unrisked, our NPV for the Greater Perth area rises to ~£700m (500p/sh), with Parkmead estimating 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.

GPA farm-out progress encouraging

Parkmead launched the project partnering process for the Greater Perth Area in late-July, engaging a leading energy corporate finance advisor, Gneiss Energy Ltd, to lead the process. Progress is said to be encouraging.

The environment for Parkmead to deliver on its farm-out 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.

UK wind fall tax enhances farm-out prospects

The UK government announced a windfall tax on oil and gas companies in May, the Energy Profits Levy (EPL), further increasing this in the recent Autumn Budget. This has raised the UK upstream headline tax rate from 40% to 75% until March 2028. The EPL is designed to encourage higher investment in the North Sea via an investment allowance that offers 91p of tax relief on every £1 of new investment.

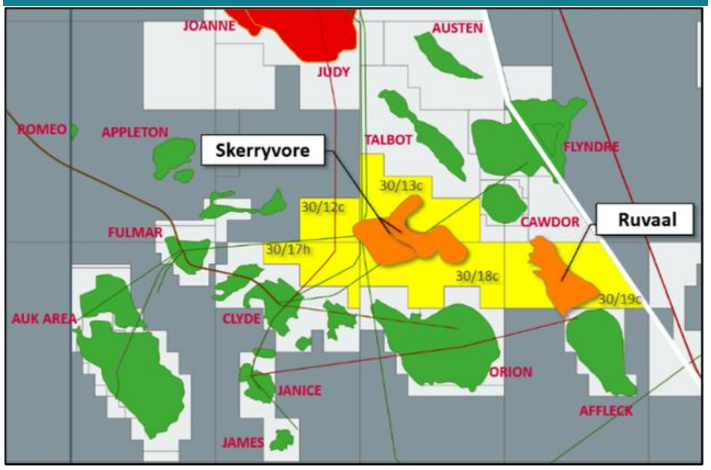
For Parkmead's pre-development Greater Perth Area (GPA) project this is good news. It heavily incentivises existing upstream producers to pursue development projects to provide investment offsets against the levy. Parkmead's GPA project is perfectly positioned to benefit as it requires significant capital investment during most of the period that the levy applies.

Skerryvore high impact exploration

Parkmead was awarded the highly prospective and sought-after P.2400 licence in the UK 30th Licensing Round, containing the Skerryvore prospect. In September, Parkmead increased its stake in this Central North Sea licence from 30% to 50% at zero cost and moved into the drilling phase of the licence, adding high-impact exploration potential into its investment proposition.

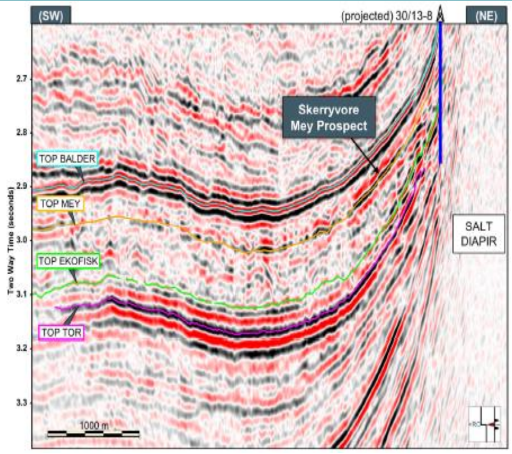
Together with CalEnergy, it assumed NEO Energy's 30% stake, with Serica holding the remaining 20% of the licence. Parkmead also received approval from the North Sea Transition Authority (NSTA) to enter the next 3-year exploration phase of the licence, with an agreement to drill the high-impact prospects.

Figure 8: Skerryvore prospect map



Source: Parkmead

Figure 9: Skerryvore seismic line



Source: Parkmead

Skerryvore represents an exciting high-impact exploration opportunity, consisting of three stacked targets, at Mey and Chalk level. Combined, these contain estimated prospective resources of 157 mmboe and have an average geological chance of success (GCoS) of 24%.

We value Skerryvore at £15m (12p/sh) within our risked NAV assuming an average 24% geological chance of success and 25% commercial risking. Our unrisked NPV for the prospect rises to £327m (269p/sh), highlighting the high-impact nature of this prospect.

The well should be able to be drilled by a modern jack-up rig while high activity levels on acreage surrounding Skerryvore could offer cost synergies. Parkmead estimates its 50% share of the well cost at ~£10m, with drilling targeted for 2024. In the success case, a future development would likely be tied back to existing or planned infrastructure in the area.

New UK licencing round

In October, the UK launched a massive new North Sea licensing round, with the North Sea Transition Authority (NSTA) inviting applications for 898 blocks and part blocks. There is a new sense of urgency behind this licensing too, spurred on by the need for greater domestic security of supply. Timelines have been condensed, shortening the application period to 90 days from 6-7 months, with the first licences to be awarded from Q2 2023.

Parkmead is focused on a targeted approach towards known opportunities close to existing infrastructure. Noteworthy is the fact that the acreage surrounding Parkmead's Skerryvore prospect is up for grabs. Encouraging joint venture discussions are underway with several oil and gas companies as well as potential infrastructure partners.

Parkmead should also be in a strong position to re-apply for the Platypus licence, which was relinquished when the partners were unable to secure an extension to the licence on acceptable terms. That was last August, in a very different regulatory environment.

UK onshore renewables off to the races

Parkmead's onshore renewable energy projects in the UK are benefiting from strong power markets while expanding in scope.

Kempstone Hill enjoying record revenues

The Kempstone Hill Wind Farm, which Parkmead acquired in February for £4.3m, has now been fully integrated into the Group. This acquisition was immediately revenue and cash flow enhancing and over the past 12 months it has generated 2.85 GWh of electricity and had an impressive 99.7% availability. It benefits from an attractive, inflation-linked, Feed-in Tariff (FIT) for the life of the project through until 2036.

The electricity generated is sold through a PPA, which provides exposure to the large rise in wholesale electricity prices since the Ukraine war. The annual PPA renegotiation for the year commencing 1 August 2022 locked in almost a 250% increase to the wholesale export electricity price, providing a significant boost to near-term cashflow. Moreover, as this windfarm does not operate under a CfD pricing contract, Parkmead is not liable for the windfall taxes announced on electricity generators with the Autumn Budget.

Parkmead is also pursuing opportunities to further enhance the Kempstone Hill site, including the potential inclusion of solar and expanding electricity sales to local industry.

Enhanced Pitreadie opportunity

The initial wind farm scoping study completed by SLR Consulting confirmed the Pitreadie site has the potential for a 5-6 turbine development. Discussions are being held on JV potential with other major energy operators and combined development opportunities with other landowners. Environmental studies are expected to commence in 4Q 2022 to support the planning application.

The seismic shift in UK and European power markets following Russia's invasion of Ukraine has changed the renewable energy landscape and Parkmead has expanded the scope of its Pitreadie project to a hybrid of renewables, adding solar and battery storage to its wind ambitions. Assessment of their potential is ongoing.

Within our risked NAV, we include £4.4m (3.6p/sh) for the operating Kempstone Hill wind farm and £3.5m (2.9p/sh) for the Pitreadie project (5.8p/sh unrisked). These may be small relative to some of Parkmead's upstream opportunities, but they come with a different risk and cash flow profile and provide attractive portfolio diversification and a foundation for its energy transition ambitions.

Valuation

Our risked NAV and price target declines 4% from 194p/sh to 187p/sh primarily due to the higher expected decommissioning spend.

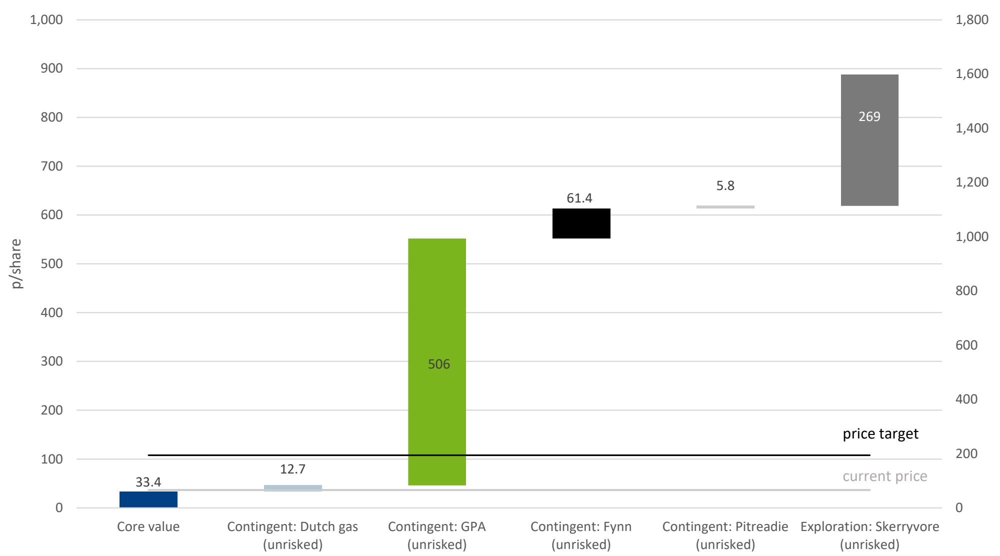
Figure 10: Parkmead net asset value

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			-17.8	-12.7				-17.8	-12.7
Net cash / (debt)			29.0	20.7				29.0	20.7
Options/SARs			4.7	3.3				4.7	3.3
Athena decommissioning			-22.1	-15.8				-22.1	-15.8
Aupec (6x 2023e EBIT)			0.1	0.1				0.1	0.1
Pitreadie Farm Ltd land (@ cost adjusted for land sales)			5.2	3.7				5.2	3.7
Kempstone Hill 1.5 MW Wind Farm			5.1	3.6				5.1	3.6
			4.1	**2.9**				**4.1**	**2.9**
Producing assets									
Netherlands producing	2.3	17.82	40.6	29.0	100%	100%		40.6	29.0
Core value:			**43.5**	**31.9**				**43.5**	**31.9**
Contingent resource:									
Pitreadie 20MW hybrid renewables project			8.1	5.8		50%		4.0	2.9
Netherlands - Ottoland	0.7	10.69	7.4	5.3	100%	50%		3.7	2.6
Netherlands - Papekop	0.9	10.69	9.5	6.8	100%	50%		4.8	3.4
UK - Greater Perth Area	79.7	8.87	707.4	505.7	100%	25%		176.9	126.4
UK - Fynn Beauly	25.1	2.50	62.8	44.9	100%	10%		6.3	4.5
UK - Fynn Andrew	9.3	2.50	23.1	16.5	100%	10%		2.3	1.7
Contingent value:			**818.3**	**585.0**				**197.9**	**141.5**
Prospective resource:									
Netherlands - Drenthe VI - LDS-A/B	0.3	27.50	7.8	5.6	44%	100%	1.5	1.9	1.4
UK - Skerryvore (Mey+Ekofisk+Tor)	77.7	4.85	376.6	269.2	24%	25%	5.8	16.8	12.0
Prospective value:			**376.6**	**269.2**				**16.8**	**13.3**
Total - Core + Contingent + Prospective:			**1,238.4**	**886.1**				**258.2**	**186.8**

Source: finnCap

Discounted to 30 June 2022 at 10%. Assumes long-term US$70/bbl Bent and €30/MWh Dutch TTF gas price. US$:£1.15

Figure 11: Parkmead unrisked net asset value waterfall (p/share)



Source: finnCap

Income statement		2020A	2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
Sales	**£m**	**4.1**	**3.6**	**12.1**	**22.1**	**19.4**
Cost of sales	£m	-2.0	-1.3	-0.6	-1.4	-1.6
Gross profit	**£m**	**2.1**	**2.3**	**11.6**	**20.7**	**17.8**
Operating expenses	£m	-1.8	-3.3	-3.3	-2.8	-2.9
EBITDA (adjusted)	**£m**	**0.3**	**-0.9**	**8.2**	**17.9**	**14.9**
Depreciation	£m	-0.8	-0.6	-0.7	-0.7	-0.7
Amortisation	£m	0.0	0.0	0.0	0.0	0.0
EBIT (adjusted)	**£m**	**-0.5**	**-1.5**	**7.5**	**17.2**	**14.2**
Associates/other	£m	0.4	-0.4	-2.2	0.0	0.0
Net interest	£m	-0.6	-0.7	-1.2	-0.7	-0.7
PBT (adjusted)	**£m**	**-0.7**	**-2.6**	**4.1**	**16.5**	**13.5**
restructuring costs	*£m*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
share based payments	*£m*	*-0.1*	*0.0*	*-0.1*	*-0.1*	*-0.1*
other adjustments	*£m*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Total adjustments	£m	-0.1	-10.9	-0.1	-0.1	-0.1
PBT (stated)	**£m**	**-0.8**	**-13.5**	**4.0**	**16.4**	**13.5**
Tax charge	£m	0.3	-0.4	-4.8	-8.3	-7.0
tax rate	*%*	*n/a*	*n/a*	*120.5*	*50.6*	*51.8*
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	**£m**	**-0.5**	**-13.8**	**-0.8**	**8.1**	**6.5**
Tax effect of adjustments / other	£m	1.0	11.2	2.2	0.0	0.0
Adjusted earnings	**£m**	**0.5**	**-2.6**	**1.4**	**8.1**	**6.5**
shares in issue (year end)	*m*	*108.6*	*109.2*	*109.3*	*109.3*	*109.3*
shares in issue (weighted average)	*m*	*106.3*	*109.2*	*109.3*	*109.3*	*109.3*
shares in issue (fully diluted)	*m*	*110.8*	*118.5*	*118.6*	*118.6*	*118.6*
EPS (adjusted, fully diluted)	**p**	**0.5**	**-2.2**	**1.2**	**6.8**	**5.5**
EPS (stated)	p	-0.5	-12.7	-0.7	7.4	5.9
DPS	**p**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Growth analysis (adjusted basis where applicable)						
Sales growth	%	-50.7%	-11.6%	236.2%	81.8%	-12.1%
EBITDA growth	%	-94.9%	-430.8%	n/m	117.0%	-16.5%
EBIT growth	%	-109.5%	-212.3%	592.1%	128.8%	-17.0%
PBT growth	%	-115.4%	-248.6%	256.8%	306.7%	-17.8%
EPS growth	%	-81.4%	-589.7%	152.6%	481.6%	-19.9%
DPS growth	%	n/m	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	51.2%	64.9%	95.4%	93.8%	91.7%
EBITDA margin	%	6.8%	-25.3%	67.8%	80.9%	76.9%
EBIT margin	%	-12.0%	-42.2%	61.8%	77.8%	73.4%
PBT margin	%	-18.2%	-71.6%	33.4%	74.7%	69.9%
Net margin	%	12.4%	-73.3%	11.5%	36.7%	33.4%

Cash flow		2020A	2021A	2022A	2023E	2024E
Year end:		**Jun**	**Jun**	**Jun**	**Jun**	**Jun**
EBITDA	£m	0.3	-0.9	8.2	17.9	14.9
Net change in working capital	£m	-0.5	-1.1	-0.6	0.0	0.0
Share based payments	£m	-0.1	0.0	-0.1	-0.1	-0.1
Profit/(loss) on sale of assets	£m	-0.4	0.4	0.0	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	1.5	0.4	0.5	0.5	0.4
Cash flow from operating activities	**£m**	**0.9**	**-1.2**	**8.0**	**18.2**	**15.2**
Cash interest	£m	0.1	0.0	0.0	-0.1	-0.1
Tax paid	£m	-1.9	-0.1	-3.5	-8.3	-7.0
Capex	£m	-3.8	-0.7	-3.8	-4.0	-2.1
Other items	£m	0.0	-0.0	-1.7	-19.2	0.0
Free cash flow	**£m**	**-4.7**	**-2.0**	**-0.9**	**-13.3**	**6.1**
Disposals	£m					
Acquisitions	£m	0.0	4.0	0.9	0.0	0.0
Dividends on ord shares	£m					
Other cashflow items	£m	-0.2	-4.4	-0.1	2.5	-0.4
Issue of share capital	£m	0.0	0.0	0.0	0.0	0.0
Net change in cash flow	**£m**	**-5.0**	**-2.4**	**-0.1**	**-10.8**	**5.7**
Opening net cash (debt)	£m	33.6	25.0	25.8	25.2	11.5
Closing net cash (debt)	**£m**	**25.0**	**25.8**	**25.2**	**11.5**	**17.2**

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	319.6%	n/m	97.7%	102.1%	102.0%
Cash conversion (free cash flow / EBITDA)	%	n/m	217.6%	-10.9%	-74.7%	40.7%
Underlying free cash flow (capex = depreciation)	£m	-1.7	-1.9	2.2	-10.0	7.5
Cash quality (underlying FCF / adjusted earnings)	%	-339.6%	72.6%	155.6%	-124.0%	115.5%
Investment rate (capex / depn)	x	5.0	1.1	5.2	5.7	3.1
Interest cash cover	x	n/a	net cash	n/a	255.6	201.5
Dividend cash cover	x	n/a	n/a	n/a	n/a	n/a

Balance sheet		2020A	2021A	2022A	2023E	2024E
Year end:		**Jun**	**Jun**	**Jun**	**Jun**	**Jun**
Tangible fixed assets	£m	21.4	19.3	22.5	23.3	22.7
Goodwill	£m	2.2	2.2	1.1	1.1	1.1
Other intangibles	£m	36.1	29.5	34.3	36.5	38.2
Other non current assets	£m	2.9	2.9	3.1	0.2	0.2
inventories	*£m*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*
trade receivables	*£m*	*1.4*	*1.4*	*2.0*	*2.0*	*2.0*
trade payables	*£m*	*-4.4*	*-3.5*	*-22.8*	*-3.2*	*-2.8*
Net working capital	£m	-2.9	-2.1	-20.7	-1.1	-0.8
Other assets	£m	0.0	0.0	0.0	0.0	0.0
Other liabilities	£m	-10.4	-17.0	-5.6	-6.2	-6.8
Gross cash & cash equivalents	£m	25.7	23.4	23.3	12.5	18.1
Capital employed	£m	74.9	58.2	57.9	66.1	72.7
Gross debt	£m	3.6	0.5	0.9	0.9	0.9
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	71.3	57.7	57.0	65.2	71.8
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	74.9	58.2	57.9	66.1	72.7

Leverage analysis						
Net debt / equity	%	net cash	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	net cash	n/a	net cash	net cash	net cash
Liabilities / capital employed	%	4.8%	0.9%	1.6%	1.4%	1.3%

Working capital analysis						
Net working capital / sales	%	-70.9%	-57.4%	-170.8%	-5.2%	-3.9%
Net working capital / sales	days	-259	-210	-623	-19	-14
Inventory (days)	days	12	7	1	1	1
Receivables (days)	days	126	137	61	33	38
Payables (days)	days	397	353	685	53	53

Capital efficiency & intrinsic value						
Adjusted return on equity	%	0.7%	-4.6%	2.4%	12.4%	9.0%
RoCE (EBIT basis, pre-tax)	%	-0.7%	-2.6%	12.9%	25.9%	19.6%
RoCE (underlying free cash flow basis)	%	-2.3%	-3.3%	3.7%	-15.2%	10.3%
NAV per share	p	65.7	52.9	52.2	59.6	65.7
NTA per share	p	30.5	23.9	19.7	25.3	29.7

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