10th January 2018

hardman&co

Financials

Source: Thomson Reuters Eikon

Market data

EPIC/TKR	BUR
Price (p)	1104.0
12m High (p)	1245.0
12m Low (p)	634.0
Shares (m)	208.2
Mkt Cap (£m)	2,299
Total Assets ($m)	1,196
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*
Priced at 9th January 2018

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, as well as asset recovery and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton

+1 (212) 235-6820
www.burfordcapital.com

Key shareholders

Directors	14%
Invesco Perpetual	22.7%
Woodford Investments	10.0%
Old Mutual	6.0%
Aberdeen Asset	4.9%

Next event

14 Mar 2018	Full-year results

Analyst

Brian Moretta 020 7194 7622
bm@hardmanandco.com

Burford Capital

Continued evidence of growth

This morning, Burford issued an announcement giving an update on its investment commitments in 2017. The second half of the year produced almost twice as much in the way of commitments compared with the first. The total for the year of $1,343.5m, compares with $488m in 1H2017, giving $855m of new commitments for the second half. Of the total, $698.3m (52%) were balance sheet commitments, with the remainder for funds and other vehicles. Investors should note that cash invested will have been lower, but these figures have not been disclosed.

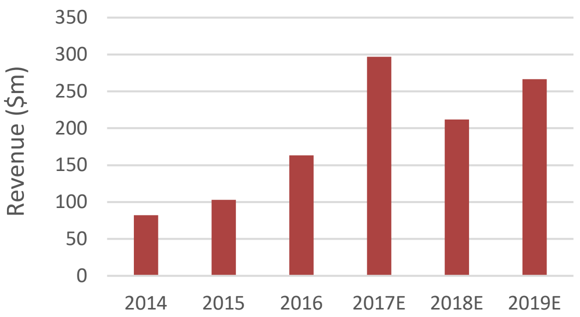
- **Split by type**: The largest proportion (54%) is for portfolio finance, which has been Burford's most common investment for some time. Recourse finance makes up 35%. Legal risk management exposure, which is entirely contingent, has actually fallen slightly since the half year, but is a small proportion.
- **Potential bond issue:** Burford has not given an indication of its cash position, but has said that it is starting talks with fixed-income investors about a new bond issue. Given the success of the previous bond issues, and limited ORB issuance, we believe that another retail bond issue is the most likely option.
- **Valuation:** We have made no adjustments to our estimates, but the slight fall in the share price since the last announcement has made the rating more attractive. The prospective P/E for 2019 of 18.7x is not excessive for a growth company, with a 16.5% RoE giving strong metrics all around.
- **Risks:** The investment portfolio is still diversified, with exposure to over 500 claims, but retains some very large investments, which means revenue may be volatile. As the company matures, we would expect that to decrease but not to disappear. The Teinver case shows that this volatility is not simply a negative.
- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market while investing its capital base. As the invested capital continues to grow, the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year-end Dec ($m)	2014	2015	2016	2017E	2018E	2019E
Revenue	82.0	103.0	163.4	297.0	212.0	266.5
Operating profit	60.7	77.2	124.4	230.3	140.6	184.8
Reported net income	45.4	64.5	108.3	200.6	110.0	153.0
Underlying net income	53.0	64.5	114.2	216.2	121.7	164.7
Underlying RoE	12.1%	16.0%	22.2%	30.0%	13.8%	16.5%
Underlying EPS ($)	0.26	0.32	0.55	1.04	0.58	0.79
Statutory EPS ($)	0.22	0.32	0.53	0.96	0.53	0.73
DPS ($)	0.07	0.08	0.09	0.11	0.12	0.14
Yield	0.5%	0.5%	0.6%	0.7%	0.8%	0.9%
NAV per share ($)	1.87	2.12	2.22	2.92	3.45	4.18
P/E (x) (underlying)	57.1	46.9	27.0	14.3	25.3	18.7
Price/NAV (x)	7.9	7.0	6.7	5.1	4.3	3.5

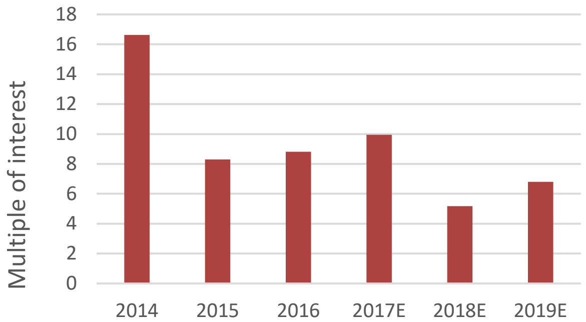
Source: Company data, Hardman & Co Research

Revenue



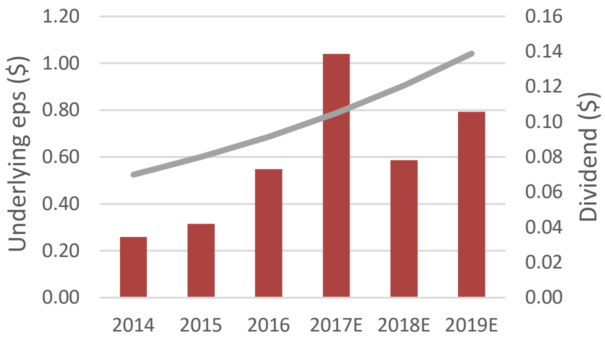
- Long-term growth depends on pace of investment and conclusions
- Accelerated investment in 2016 will boost 2017 and 2018 revenue
- 2017 figures boosted by sales from Petersen case and result of Teinver claim
- GKC acquisition adds revenue from 2017 onwards

Interest cover



- No debt prior to 2014
- Retail bond issues in 2014, 2016 and 2017
- $43.75m loan note issued for GKC acquisition now redeemed
- 2014 issue was mid-year, so only partial accrual of coupon

EPS and DPS



- 2017 results boosted by sales from Petersen case
- Full effect of large single $100m investment coming through properly in late 2016 and into 2017
- Some large single claims may introduce volatility in the future

Source: Company data; Hardman & Co Research

Interpreting the announcement

At the half year, Burford introduced a slightly different presentation of its investments, introducing the split used in the announcement. However, the acquisition of GKC, and the capital movements around the new complex strategies fund in particular, make interpretation difficult.

Burford notes that the new commitments of $1,343.5m are more than triple the 2016 level of $378m. With 48% of the total going to funds and other vehicles, the increase for balance sheet commitments is still approximately 85%.

Estimating the actual cash investment is really not possible from these figures. There is some capital within that will be, or has been, recycled, although the quantity is not disclosed. For example, at the half-year stage, Burford held $124m of investments on its balance sheet that were to be moved into the new complex strategies fund. However, with Burford supplying 30% of the capital in that fund, a portion of this will be retained on the balance sheet indirectly.

We do note that, in 1H2017, Burford made additions of $193m to its balance sheet investments, including the above-mentioned $124m for the complex strategies fund. In 2016, the $378m of commitments gave $272m of additions to investments, although this included the $100m investment at the start of the year, which, unusually, had no contingent element.

Our current estimates assume $240m of additions after recycling, i.e. allowing for recycling but not realisations. We do not have sufficient information in this announcement to adjust this figure with any confidence, and thus are leaving it unchanged.

Cash

At the half year, Burford had $222m of cash and cash investments. There was another $33m due from litigation settlements, although only $3.4m of those were in current assets. There were $400m of contingent commitments at that time.

Although the asset side will have been supplemented by realisations from investments, it seems likely that Burford will have invested some of this cash balance during 2H2017. Given the increased rate of investment, it seems likely that Burford will look to replenish its reserves when they are at higher levels than when it has raised capital in the past. With today's statement, perhaps investigating a new bond issue is to be expected.

The three previous issues were retail bonds that were listed on ORB. We note that, since last May's issue, gilt yields are a little higher and credit spreads a little narrower. It is not clear what the net effect on the coupon of a new issue would be, although Burford's increased size may work in its favour.

Summary

From an equity perspective, today's figures help to confirm that Burford's growth trajectory is continuing, but without sufficient data to make informed adjustments to estimates.

Financials and forecasts

We note, as before, that our revenue forecasts largely reflect an expected average based on an analysis of Burford's track record. Individual cases are binary in nature and, therefore, impossible to explicitly forecast. Burford has a few large cases, including the Petersen claim, which may have a significant, but impossible-to-forecast, impact on the results.

Summary financials

Year end Dec ($m)	2014	2015	2016	2017E	2018E	2019E
Revenue	82.0	103.0	163.4	297.0	212.0	266.5
Expenses	21.3	25.8	39.0	51.2	59.8	70.1
Operating profit	**60.7**	**77.2**	**124.4**	**230.3**	**140.6**	**184.8**
Finance cost	3.7	9.3	14.1	23.7	27.8	27.8
Exceptional items	-9.7	0.0	-5.9	-3.8	0.0	0.0
Reported pre-tax	**47.3**	**67.9**	**104.1**	**206.3**	**112.5**	**156.7**
Reported taxation	-0.7	-2.2	4.8	-5.7	-2.5	-3.7
Minorities	1.2	1.2	0.6	0.0	0.0	0.0
Underlying net income	**53.0**	**64.5**	**114.2**	**216.2**	**121.7**	**164.7**
Statutory net income	45.4	64.5	108.3	200.6	110.0	153.0
Underlying basic EPS ($)	**0.26**	**0.32**	**0.56**	**1.04**	**0.58**	**0.79**
Statutory basic EPS ($)	0.22	0.32	0.53	0.96	0.53	0.73
DPS ($)	0.07	0.08	0.09	0.11	0.12	0.14
Balance sheet						
Total equity	382.7	433.1	462.2	607.5	717.5	870.5
Invested capital	207.5	252.9	394.3	532.1	689.9	870.6
Fair value balance	266.8	334.2	559.7	820.3	1,084.3	1,401.3
Total assets	**533.2**	**608.7**	**826.4**	**1,219.6**	**1,329.6**	**1,482.6**
NAV per share ($)	1.87	2.12	2.22	2.92	3.45	4.18
Return on equity	**12.4%**	**15.8%**	**21.0%**	**30.0%**	**13.8%**	**16.5%**

Source: Company data, Hardman & Co Research; Note: £1=$1.34

Disclaimer

Hardman & Co provides professional independent research services. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed.

The research reflects the objective views of the analysts named on the front page. However, the companies or funds covered in this research may pay us a fee, commission or other remuneration in order for this research to be made available. A full list of companies or funds that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/

Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.

Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.

Hardman & Co does not make recommendations. Accordingly, we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice.

Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us.

This information is not tailored to your individual situation and the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial adviser.

This report may not be reproduced in whole or in part without prior permission from Hardman &Co.

Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259. However, the information in this research report is not FCA regulated because it does not constitute investment advice (as defined in the Financial Services and Markets Act 2000) and is provided for general information only.

Hardman & Co Research Limited (trading as Hardman & Co)
35 New Broad Street
London
EC2M 1NH
T +44 (0) 207 194 7622

Follow us on Twitter @HardmanandCo

(Disclaimer Version 3 – Effective from April 2017)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman research and, specifically, whether it can be accepted without a commercial arrangement. Hardman's company research is paid for by the companies about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are' (b) 'written material from a third party that is commissioned and paid for by an[sic] corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public;'

The fact that we are commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman is not inducing the reader of our research to trade through us, since we do not deal in any security.

Hardman Team

Management Team

+44 (0)20 7194 7622

John Holmes	jh@hardmanandco.com	+44 (0)207 194 7629	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 194 7630	CEO

Marketing / Investor Engagement

+44 (0)20 7194 7622

Richard Angus	ra@hardmanandco.com	+44 (0)207 194 7635
Max Davey	md@hardmanandco.com	+44 (0)207 194 7622
Antony Gifford	ag@hardmanandco.com	+44 (0)207 194 7622
Vilma Pabilionyte	vp@hardmanandco.com	+44 (0)207 194 7637
Gavin Laidlaw	gl@hardmanandco.com	+44 (0)207 194 7627
Ann Hall	ah@hardmanandco.com	+44 (0)207 194 7622

Analysts

+44 (0)20 7194 7622

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Thomas Wigglesworth	tcw@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com
Jason Streets	js@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com

Mining

Paul Singer	if@hardmanandco.com

Oil & Gas

Angus McPhail	am@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com

Services

Mike Foster	mf@hardmanandco.com

Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

Tax Enhanced Services

Brian Moretta	bm@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Utilities

Nigel Hawkins	nh@hardmanandco.com

Hardman & Co

35 New Broad Street
London
EC2M 1NH

Tel: +44(0)20 7194 7622

www.hardmanandco.com