

**Market data**

EPIC/TKR	BUR
Price (p)	929.5
12m High (p)	969.5
12m Low (p)	310.0
Shares (m)	208.2
Mkt Cap (£m)	1,936
Total Assets (\$m)	1,050
Free Float*	86%
Market	AIM

\*As defined by AIM Rule 26

**Description**

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, 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
	<a href="http://www.burfordcapital.com">www.burfordcapital.com</a>

**Key shareholders**

Directors	14%
Invesco Perpetual	25.0%
Woodford Investments	10.0%
Aberdeen Asset	4.9%

**Next event**

16 Jun-17	Final dividend paid
27 Jul-17	Interim results

**Analyst**

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**Burford Capital****Positive judgement from the secondary market**

Burford has announced a further sale from the Petersen case, the third in the last six months. On this occasion, they have sold 15% of the exposure for \$66m, giving an implied value on the whole case of \$440m. This is a 10% uplift on the value given by the previous sales, which was \$400m. Having reduced their retained exposure to 75%, Burford have made commitments to keep at least 65% until the end of 2018 and at least 50.1% beyond that.

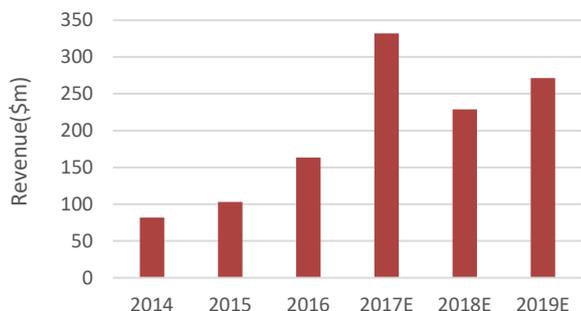
- ▶ **Earnings:** There will be a significant additional realised gain from the sale, which Hardman & Co estimate at \$60m. There will be an effect on unrealised gains too, with our overall revenue forecast for 2017E increased by \$99m. There is no effect on earnings estimated beyond 2017.
- ▶ **Balance sheet:** The sale will bring another \$66m of cash back onto the balance sheet, which gives Burford plenty of capacity for investment when added to the £175m (\$225m) proceeds of the recent bond issue. The increased asset value has mechanically reduced our RoE estimates for 2018E and 2019E.
- ▶ **Valuation:** With the sale only affecting 2017E earnings, this has little effect on Burford's prospective P/E which remains good value despite the strong share price performance. The P/E for 2019E is only 14.6 times. The 2019E RoE becomes 16.6% on a larger book value, with strong growth which suggests excellent metrics all round.
- ▶ **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 Petersen 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, whilst 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	332.1	229.0	271.4
Operating Profit	60.7	77.2	124.4	280.0	168.3	201.0
Reported net income	45.4	64.5	108.3	248.0	136.2	167.9
Underlying net income	53.0	64.5	114.2	248.0	136.2	167.9
Underlying Return on Equity	12.1%	16.0%	22.2%	35.8%	15.9%	16.6%
Underlying EPS (\$)	0.26	0.32	0.55	1.19	0.65	0.81
Statutory EPS (\$)	0.22	0.32	0.53	1.19	0.65	0.81
Dividend per share (\$)	0.07	0.08	0.09	0.11	0.12	0.14
Yield	0.6%	0.7%	0.8%	0.9%	1.0%	1.2%
NAV per share (\$)	1.87	2.12	2.22	3.14	3.80	4.60
P/E (x) (underlying)	45.6	37.5	21.5	9.9	18.1	14.6
Price/NAV (x)	6.3	5.6	5.3	3.8	3.1	2.6

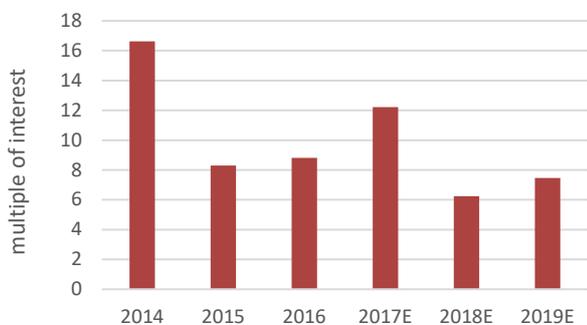
Source: Hardman &amp; Co Research

**Revenue**



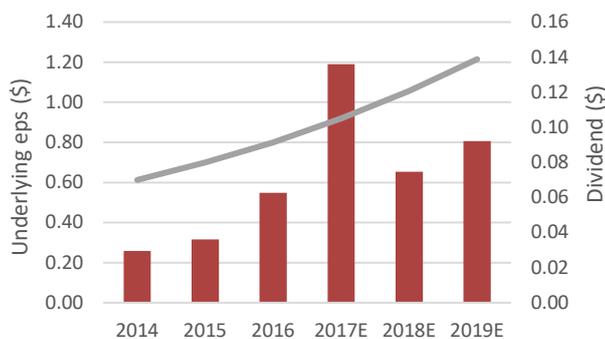
- ▶ Long term growth depends on pace of investment and conclusions
- ▶ Accelerated investment in 2016 will boost 2017 and 2018 revenue
- ▶ 2017 figures boosted by sales from Petersen case
- ▶ GKC acquisition adds revenue from 2017 onwards

**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 dividend**



- ▶ 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

## Effect of transaction

We have discussed the Petersen case in detail in our notes of 27 January 2017 and 20 March 2017. Readers who are not familiar with the case's history are encouraged to read those for fuller information.

It is worth reiterating a couple of points for investors:

- ▶ Burford do not disclose the valuation of any individual investments. We do not know what the valuation of the Petersen case was in the year end results, so we can only estimate the gains on these transactions.
- ▶ We don't know how much of the valuation uplift Burford will incorporate into its unrealised gains. Previously it has indicated that the sales were insufficient to justify using the transaction price as the value for the whole investment. In particular, it has stated and repeats in this announcement, that it has not consulted its auditors yet.

This is Burford's third sale, and the largest yet, for the Petersen case. In the previous transactions, it sold 10% of its exposure, and has sold an additional 15%, leaving a 75% retention. The implied valuation based on the latest transaction is \$440m.

For our previous 2017E figures Hardman & Co assumed a prior (year end) valuation of \$40m, giving an estimated realised gain of \$36m. We assumed an unrealised gain of the same amount as a 10% move towards the implied valuation.

If we use the same base valuation, that suggests an additional realised gain of \$60m for the latest transaction.

Burford's disclosure policy is well justified, but means that estimating the unrealised gain is, to an analyst's frustration, little more than an exercise in educated guesswork. We can justify any figure up to \$300m, but Burford management has historically been quite conservative. As they had sold 10% previously, we assumed a movement of 10% towards the valuation. As the sale level is now 25%, we'll do the same, implying a total estimated unrealised gain of \$75m, or an increase of \$39m. (Investors should note that some of the previously assumed unrealised gain has now been realised).

This gives an uplift to 2017E revenues of \$99m, or a 67% uplift to after tax earnings to \$248m. There is no effect on estimates beyond that, though the increased asset value does lower the return on equity forecasts.

### Summary

This is clearly another positive for investors. In cash terms the realised gains make the Petersen case Burford's most successful investment to date, even if they never receive another penny. That investors are willing to invest into it suggests optimism from them about its eventual outcome. We do need to caution that, as an investment in a single case, the outcome remains somewhat binary. A successful outcome could give Burford further gains. However, if it fails the write-down will have significant negative effect on that year's earnings, though the balance sheet and portfolio is sufficiently strong and diverse that such a write-down should not affect Burford's earnings prospects other than that.

## Financials and Forecast

We note, as before, that our revenue forecasts largely reflect an expected average based on 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	332.1	229.0	271.4
Expenses	21.3	25.8	39.0	52.0	60.7	70.4
<b>Operating Profit</b>	<b>60.7</b>	<b>77.2</b>	<b>124.4</b>	<b>280.0</b>	<b>168.3</b>	<b>201.0</b>
Finance cost	3.7	9.3	14.1	22.9	26.9	26.9
Exceptional items	-9.7	0.0	-5.9	0.0	0.0	0.0
<b>Reported pre-tax</b>	<b>47.3</b>	<b>67.9</b>	<b>104.1</b>	<b>256.8</b>	<b>141.1</b>	<b>173.8</b>
Reported taxation	-0.7	-2.2	4.8	-8.8	-4.9	-5.9
Minorities	1.2	1.2	0.6	0.0	0.0	0.0
<b>Underlying net income</b>	<b>53.0</b>	<b>64.5</b>	<b>114.2</b>	<b>248.0</b>	<b>136.2</b>	<b>167.9</b>
Statutory net income	45.4	64.5	108.3	248.0	136.2	167.9
<b>Underlying Basic EPS (\$)</b>	<b>0.26</b>	<b>0.32</b>	<b>0.56</b>	<b>1.19</b>	<b>0.65</b>	<b>0.81</b>
Statutory Basic EPS (\$)	0.22	0.32	0.53	1.19	0.65	0.81
Dividend (\$)	0.07	0.08	0.09	0.11	0.12	0.14
<b>Balance sheet</b>						
Total equity	382.7	433.1	462.2	654.8	790.9	958.8
Invested Capital	207.5	252.9	394.3	621.6	750.8	906.3
Fair Value Balance	266.8	334.2	559.7	932.7	1,169.3	1,451.3
<b>Total Assets</b>	<b>533.2</b>	<b>608.7</b>	<b>826.4</b>	<b>1,259.5</b>	<b>1,395.7</b>	<b>1,563.6</b>
NAV Per share (\$)	1.87	2.12	2.22	3.14	3.80	4.60
<b>Return on Equity</b>	<b>12.4%</b>	<b>15.8%</b>	<b>21.0%</b>	<b>35.8%</b>	<b>15.9%</b>	<b>16.6%</b>

Source: Hardman & Co, £1=\$1.27

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