



Market data	
EPIC/TKR	BUR
Price (p)	1818.0
12m High (p)	2040.0
12m Low (p)	1022.0
Shares (m)	218.6
Mkt Cap (£m)	3,975
Total assets (\$m)	1,904
Free Float*	90%
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
 CFO Elizabeth O'Connell
 Chairman Sir Peter Middleton

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

Key shareholders

Directors	10%
Invesco Perpetual	17.8%
Woodford Investments	10.0%
Old Mutual	5.2%

Diary

12 November	Capital markets day
5 December	Interim dividend payment

Analyst

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BURFORD CAPITAL

Equity issue ensures growth is not adjourned

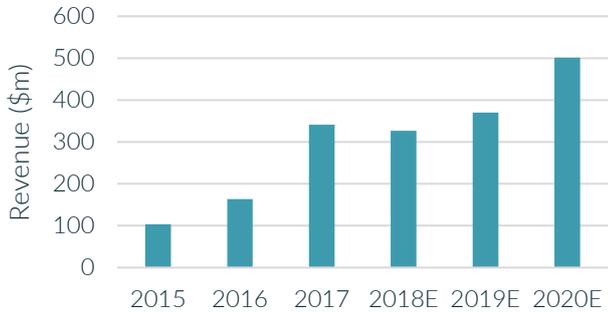
Burford has placed 10.41m new shares with institutional investors through an accelerated bookbuild. The price per share was 1850p, making a total of £192.6m (\$251.2m) raised before expenses. The funding will be applied to business expansion, with new geographies such as parts of the United States that have not been fully addressed yet, Australia and Germany specifically mentioned as well as adding to the team in existing locations. The announcement also mentions new products, which have been the topic of recent press releases, and it is clear that Burford has every intention of pushing its growth further.

- **Issue:** The 10.41m shares represent approximately 5% of the share capital prior to the issue. The issue was filled quickly and was oversubscribed. Burford priced the offering at a 2.9% discount to the volume-weighted average share price since the release of the interim results.
- **Future fundraisings:** While a fundraising was well flagged at the time of the interim results, Burford's sustained growth means that it will continue to require capital to fund investments. The statement indicates that further debt and private funds will be raised in the near future.
- **Valuation:** Hardman & Co has made minor adjustment to its earnings estimates, with the most significant being the increased number of shares. The prospective 2019 P/E of 22.0x is not excessive for a growth company, with a 22.3% RoE giving strong metrics all round.
- **Risks:** The investment portfolio is still diversified, with exposure to more than 900 claims. However, it retains some very large investments, which means revenue could 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 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)	2015	2016	2017	2018E	2019E	2020E
Revenue	103.0	163.4	341.2	326.5	370.4	501.4
Operating profit	77.2	124.4	285.1	263.0	295.2	412.3
Reported net income	64.5	108.3	249.3	216.2	241.5	349.6
Underlying net income	64.5	114.2	264.8	227.9	253.2	361.3
Underlying return on Equity	16.0%	22.1%	35.9%	24.6%	22.3%	25.6%
Underlying EPS (\$)	0.32	0.55	1.27	1.04	1.16	1.65
Statutory EPS (\$)	0.32	0.53	1.20	1.03	1.10	1.60
Dividend per share (\$)	0.08	0.09	0.11	0.13	0.15	0.17
Yield	0.3%	0.4%	0.4%	0.5%	0.6%	0.6%
NAV per share (\$)	2.12	2.22	3.19	3.92	4.90	6.50
P/E (x) (underlying)	80.7	46.4	20.0	24.4	22.0	15.4
Price/NAV (x)	12.0	11.5	8.0	6.5	5.2	3.9

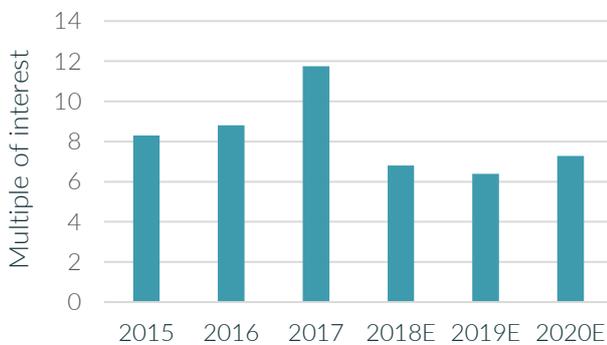
Source: Hardman & Co Research

Revenue



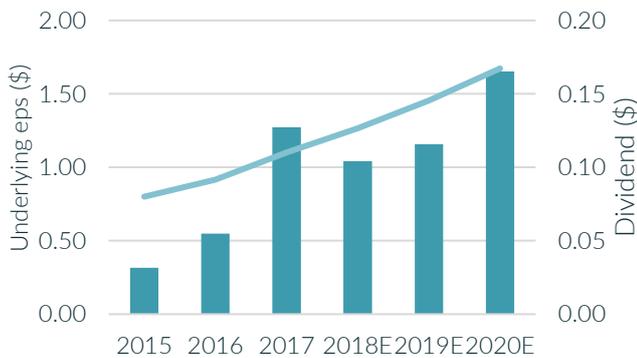
- ▶ Long-term growth depends on the pace of investment and conclusions
- ▶ Accelerated investment in 2017 will boost future revenues
- ▶ 2017 and 1H'18 figures were boosted by sales from the Petersen case and the results of the Teinver claim
- ▶ The investment management acquisition adds revenue from 2017 onwards

Interest cover



- ▶ No debt prior to 2014
- ▶ Retail bond issues in 2014, 2016, 2017 and 2018
- ▶ Forecasts assume future bond issues in 2019 and 2020
- ▶ Future cash needs and debt issuance are dependent on the rate of investment and the proceeds from realisations

EPS and DPS



- ▶ 2017 and 1H'18 results were boosted by sales from the Petersen case and the results of the Teinver claim
- ▶ Continued growth in the pace of investment is driving future returns
- ▶ Some large, single claims might continue to bring volatility in the future, although this is to the upside as well as the downside

Source: Company data; Hardman & Co Research

Comments on fundraising

At the time of the interim results, Burford highlighted the options open to it for future fundraisings. This was not really much of a surprise. Although the fourth retail bond issue earlier this year raised \$180m, this was less than the amount raised from the 2017 retail bond. The cash balance at the start of 2018 was also lower than that a year earlier, albeit the sale of the Teinver claim would boost that.

Since its creation, Burford has steadily grown the amount invested, meaning it has a bigger cash requirement for investment each year.

While raising further funds was not a surprise, the earlier discussion had focussed on the relative merits of debt and investment funds rather than equity. The choice of the latter appears to reflect the inherent conservatism of the Burford management team.

The statement referred to debt and private fund issues that will follow shortly. The latter was flagged at the time of the interim results, with the expectation of a Partners IV fund. This would follow the same strategy as the main on-balance sheet investments and the previous three funds.

The timing of any debt issue will, as usual, depend on the flow of both investments and maturing investments. Burford has noted that investments tend to accelerate towards the year end. The amount raised (£192.6m/\$251.2m gross) is more than any of the bond raises, but with Burford's increasing size and rate of investment the amount and/or number of fundraisings will also have to increase to maintain growth.

As usual, visibility of maturing claims is very limited, though there is also bias towards the second half of the year.

Staffing

Hardman & Co has previously suggested that, given the returns it is generating, Burford should be able to access sufficient capital to fund its growth without any difficulties. Growing its staff to expand its capacity is probably more important and, as recent press releases show, has clearly been a management focus.

The statement focussed on increasing staff numbers across the board, both in existing and new areas. Currently, Australian investments are being managed from London, so adding local staff will be a positive step. The cost of the staffing is small relative to the funding required for the associated investments, but should continue to rise as Burford expands its capacity.

Estimate updates

Burford has been clear that it will require further funding to maintain its growth. Hardman & Co estimates already have new investments growing at 25% in 2018 and 20% thereafter, and these are being left unchanged. Similar growth rates for expenses are also left unchanged.

The estimates also include bond issues of \$200m at the start of 2019 and 2020. These have been left unchanged for now. However if the growth rate of investments accelerates further, then the amount of funding required might be higher.

Thus, the main change to our estimates is an increased number of shares, with some related minor exchange rate adjustments pushing up the revenues slightly.

Summary financials						
Year-end Dec (\$m)	2015	2016	2017	2018E	2019E	2020E
Revenue	103.0	163.4	341.2	326.5	370.4	501.4
Expenses	25.8	39.0	52.3	63.5	75.2	89.1
Operating profit	77.2	124.4	285.1	263.0	295.2	412.3
Finance cost	9.3	14.1	24.3	38.7	46.2	56.6
Exceptional items	0.0	-5.9	-3.8	0.0	0.0	0.0
Reported pre-tax	67.9	104.1	249.2	212.6	237.3	344.0
Reported taxation	-2.2	4.8	0.1	3.6	4.1	5.5
Minorities	1.2	0.6	0.0	0.0	0.0	0.0
Underlying net income	64.5	114.2	264.8	227.9	253.2	361.3
Statutory net income	64.5	108.3	249.3	216.2	241.5	349.6
Underlying basic EPS (\$)	0.32	0.55	1.27	1.04	1.16	1.65
Statutory basic EPS (\$)	0.32	0.53	1.20	1.03	1.10	1.60
Dividend (\$)	0.08	0.09	0.11	0.13	0.15	0.17
Balance sheet						
Total equity	433.1	462.2	664.5	856.9	1,070.6	1,420.2
Invested capital	252.9	394.3	631.4	876.8	1,210.2	1,546.0
Fair value balance	334.2	559.7	982.2	1,325.5	1,852.9	2,454.1
Total assets	608.7	968.2	1,318.0	1,797.5	2,211.2	2,560.7
NAV per share (\$)	2.12	2.22	3.19	3.92	4.90	6.50
Return on equity	16.0%	22.1%	35.9%	24.6%	22.3%	25.6%

Source: Hardman & Co Research
£1=\$1.30

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