



## Market data

EPIC/TKR	<b>BUR</b>
Price (p)	1590.0
12m High (p)	1610.0
12m Low (p)	900.0
Shares (m)	208.2
Mkt Cap (£m)	3,311
Total Assets (\$m)	1,318
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
CIO	Jonathan Molot
Chairman	Sir Peter Middleton
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	<a href="http://www.burfordcapital.com">www.burfordcapital.com</a>

## Key shareholders

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

## Diary

25 July	Interim results
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## Analyst

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## Burford Capital

### Positive progress on Petersen

The Petersen case relates to ownership of a 25% stake in YPF, which was expropriated by the Argentinian government. Petersen subsequently went into administration, and a claim was initiated for compensation for the loss incurred by the expropriation. Having started in 2015, this is a lengthy process. A trial court decision that the claims could be heard in the United States federal courts was appealed by Argentina last year. On 10 July, over one year after the appeal was argued, the US Second Circuit Court of Appeals affirmed that decision. The next step is for the substantive proceedings to recommence in the trial court. This decision came too late for the interim results as of 30 June, and Burford will consider the impact, if any, in the year-end valuation process.

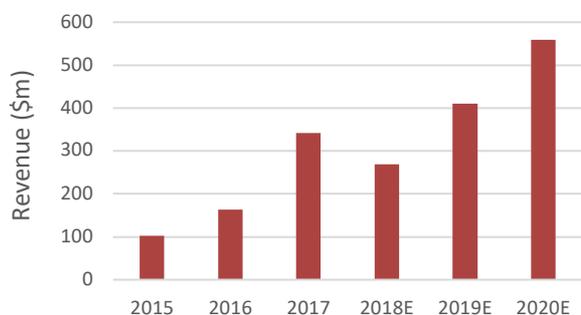
- ▶ **YPF transactions:** Burford has announced further transactions relating to YPF claims. Eton Park, the third-largest shareholder in YPF, is dissolving and Burford has purchased rights to 70% (less fees and expenses) of its claim. To maintain Burford's cash position in YPF claims, it has sold 3.75% of its Petersen exposure.
- ▶ **Valuations:** The Petersen sale implies a valuation of \$800m, compared with the average traded value in 2017 of \$660m. At end-FY2017, Burford valued its holding well below these levels. These transactions will be included in the interim results, but the valuation is likely to remain below the latest trade price.
- ▶ **Valuation:** Hardman & Co has not made any adjustments to forecasts in the light of this statement. The prospective P/E for 2019 of 15.7x is not excessive for a growth company, with a 26.9% RoE giving strong metrics all round.
- ▶ **Risks:** The investment portfolio is still diversified, with exposure to over 800 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 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	268.8	410.9	558.7
Operating profit	77.2	124.4	285.1	204.7	335.0	468.9
Reported net income	64.5	108.3	249.3	157.3	281.4	406.4
Underlying net income	64.5	114.2	264.8	169.0	293.2	418.1
Underlying RoE	16.0%	22.1%	35.9%	18.5%	26.9%	29.6%
Underlying EPS (\$)	0.32	0.55	1.27	0.81	1.41	2.01
Statutory EPS (\$)	0.32	0.53	1.20	0.76	1.35	1.95
DPS (\$)	0.08	0.09	0.11	0.13	0.15	0.17
Yield	0.4%	0.4%	0.5%	0.6%	0.7%	0.8%
NAV per share (\$)	2.12	2.22	3.19	3.83	5.05	7.00
P/E (x) (underlying)	70.6	40.6	17.5	27.4	15.8	11.1
Price/NAV (x)	10.5	10.0	7.0	5.8	4.4	3.2

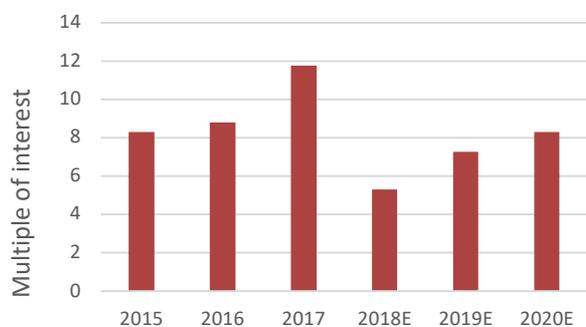
Source: Hardman & Co Research

Revenue



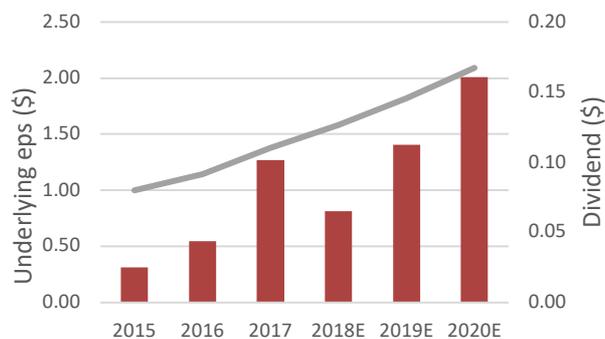
- ▶ Long-term growth depends on the pace of investment and conclusions
- ▶ Accelerated investment in 2017 will boost future revenues
- ▶ 2017 figures were boosted by sales from the Petersen case and the results of the Teinver claim
- ▶ The investment management acquisition adds revenue from 2017 onwards

Interest cover



- ▶ No debt prior to 2014
- ▶ Retail bond issues in 2014, 2016, 2017 and 2018
- ▶ Forecasts assume future bond issues on 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 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 may continue to bring volatility in the future, although this is to the upside as well as the downside

Source: Company data; Hardman & Co Research

## Further details

Eton Park was the third-largest shareholder in YPF (behind Repsol and Petersen), holding approximately 3% of the equity. Like Petersen, it has pursued a claim for compensation from the Argentinian government for its expropriation, which has had financing supplied by Burford.

Until now, Burford's role had been more limited than in the Petersen case. However, Eton Park is now dissolving, and Burford has purchased a greater interest. In return for a \$21m payment, Burford will take on a broader role and receive 70% of the results of the litigation, less fees and expenses. This arrangement is similar to that for Petersen, though there is additional investment and exposure from the prior arrangement.

From a risk management perspective, this would increase Burford's exposure to the YPF claim, which it has steadily reduced. To offset this, it has initiated a secondary market transaction to sell 3.75% of the Petersen case, reducing its exposure to 71.25% of its original holding. Note that Burford committed to holding at least 65% until the end of 2018, and not to sell for an implied value of less than \$600m. Having received \$30m for this sale, the implied valuation of \$800m is in excess of that.

With these transactions taking place before 30 June, they will be included in the interim results. With Burford valuing the case significantly below the last transaction implied valuation of \$440m, Hardman & Co estimates it will register a gain of between \$15m and \$25m. We note that, under the sale, for 3% of the Petersen case Burford received \$24m, slightly more than was paid for the Eton Park exposure.

The effect on valuation of the Petersen case is less clear. Burford has consistently carried the investment at a valuation below than the price indicated by the secondary market transactions. This has been justified by the transactions only applying to a portion of claim, and selling the whole claim may not achieve that value. We note the small proportion of the Petersen case that was traded, something that Burford gives weight in its decision.

The appellate decision came after 30 June, it will not have an effect on the interim results. A decision on what effect, if any, it will have on valuation will be taken at the year-end results.

Hardman & Co has not adjusted its estimates. Our estimates implicitly assume ongoing gains, although this clearly underpins our 2018 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)	2015	2016	2017	2018E	2019E	2020E
Revenue	103.0	163.4	341.2	268.8	410.9	558.7
Expenses	25.8	39.0	52.3	64.1	75.9	89.9
<b>Operating profit</b>	<b>77.2</b>	<b>124.4</b>	<b>285.1</b>	<b>204.7</b>	<b>335.0</b>	<b>468.9</b>
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
<b>Reported pre-tax</b>	<b>67.9</b>	<b>104.1</b>	<b>249.2</b>	<b>154.4</b>	<b>277.1</b>	<b>400.6</b>
Reported taxation	-2.2	4.8	0.1	3.0	4.3	5.8
Minorities	1.2	0.6	0.0	0.0	0.0	0.0
<b>Underlying net income</b>	<b>64.5</b>	<b>114.2</b>	<b>264.8</b>	<b>169.0</b>	<b>293.2</b>	<b>418.1</b>
Statutory net income	64.5	108.3	249.3	157.3	281.4	406.4
<b>Underlying basic EPS (\$)</b>	<b>0.32</b>	<b>0.55</b>	<b>1.27</b>	<b>0.81</b>	<b>1.41</b>	<b>2.01</b>
Statutory basic EPS (\$)	0.32	0.53	1.20	0.76	1.35	1.95
DPS (\$)	0.08	0.09	0.11	0.13	0.15	0.17
<b>Balance sheet</b>						
Total equity	433.1	462.2	664.5	798.0	1,052.0	1,458.4
Invested capital	252.9	394.3	631.4	1,005.8	1,393.6	1,783.9
Fair value balance	334.2	559.7	982.2	1,487.1	2,090.9	2,777.2
<b>Total assets</b>	<b>608.7</b>	<b>968.2</b>	<b>1,318.0</b>	<b>1,767.8</b>	<b>2,171.8</b>	<b>2,578.2</b>
NAV per share (\$)	2.12	2.22	3.19	3.83	5.05	7.00
<b>RoE</b>	<b>16.0%</b>	<b>22.1%</b>	<b>35.9%</b>	<b>18.5%</b>	<b>26.9%</b>	<b>29.6%</b>

Source: Hardman & Co Research; Note: £1=\$1.34

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