**Market data**

EPIC/TKR	BUR
Price (p)	845.5
12m High (p)	851.5
12m Low (p)	305.0
Shares (m)	208.2
Mkt Cap (£m)	1,738.8
Total Assets (\$m)	1,050.0
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, insurance, law firm lending, corporate intelligence and judgement enforcement, bankruptcy litigation funding, advisory and professional services, and a wide range of professional activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton
	+1 (212) 235-6820
	www.burfordcapital.com

Key shareholders

Directors & Management	14%
Invesco Perpetual	25.0%
Woodford Investments	10.0%
Fidelity Worldwide	8.7%
Aberdeen Asset	4.9%

Next event

16 June-17	Final dividend paid
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Analysts

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Burford Capital**Bond issue judged a great success**

Demand for Burford's new retail bond issue has proved to be incredibly strong. The issue was oversubscribed and raised £175m, with the offer being closed less than a week after being opened. The coupon of 5% was a significant reduction on the previous issues, in spite of the term being a year longer at 9 years. Of the yield improvement, only a third can be attributed to changes in the gilt rate, suggesting much greater market confidence and understanding in Burford's business than at the time of the last issue. The net proceeds from the issue will be £172.8m (\$225m). Of these \$43.75m will be used to repay the loan note for the Gerchen Keller Capital acquisition. Given the coupon on this was 6% per annum this looks sensible.

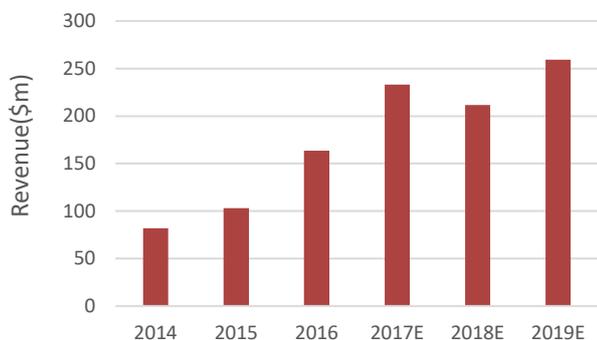
- ▶ **Trading:** Burford has not given any trading updates during the issue process. We can infer that investment opportunities remain strong, though Burford management do tend to be somewhat prudent and Hardman & Co expects the funds, as usual, will be invested steadily rather than immediately.
- ▶ **Balance sheet:** Post the issue, Burford will have gross debt of \$471m. The covenants allow for deduction of cash balances when compared to total assets and there should be no restriction to Burford from these.
- ▶ **Valuation:** The demand for the bond issue reaffirms that Burford's rating remains good value despite the strong share price performance. The prospective P/E for 2019E is only 14.2 times, while a prospective 17.5% RoE with strong growth suggests strong metrics all round.
- ▶ **Risks:** The investment portfolio is now quite diversified, but still has some very large investments, which means revenue may be volatile. The Petersen case provides a concrete example of this. As the company matures we would expect that to decrease, but not to disappear.
- ▶ **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	233.1	211.5	259.2
Operating Profit	60.7	77.2	124.4	181.0	150.8	188.8
Reported net income	45.4	64.5	108.3	152.0	119.2	156.0
Underlying net income	53.0	64.5	114.2	152.0	119.2	156.0
Underlying Return on Equity	12.1%	16.0%	22.2%	23.6%	15.8%	17.5%
Underlying EPS (\$)	0.26	0.32	0.55	0.73	0.57	0.75
Statutory EPS (\$)	0.22	0.32	0.53	0.73	0.57	0.75
Dividend per share (\$)	0.07	0.08	0.09	0.11	0.12	0.14
Yield	0.7%	0.8%	0.9%	1.0%	1.1%	1.3%
NAV per share (\$)	1.87	2.12	2.22	2.68	3.26	4.01
P/E (x) (underlying)	41.2	33.8	19.4	14.6	18.6	14.2
Price/NAV (x)	5.7	5.0	4.8	4.0	3.3	2.7

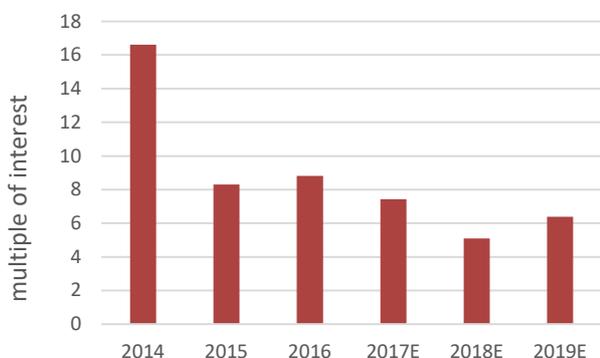
Source: Hardman & Co Research

Revenue



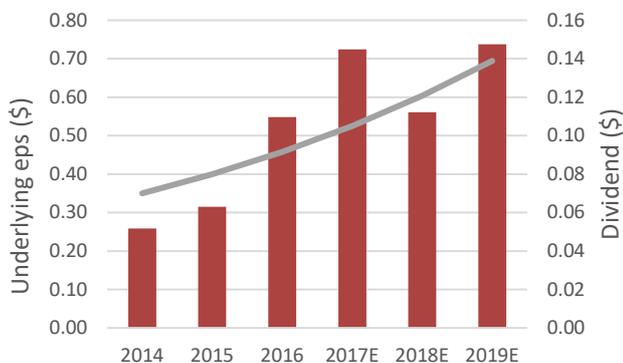
- ▶ Growth depends on pace of investment and conclusions
- ▶ Accelerated investment in 2016 will boost 2017 and 2018 revenue
- ▶ 2016 and 2017E boosted by movements in Petersen case
- ▶ Continued investment in the business underpins the growth

Interest Cover



- ▶ No debt prior to 2014
- ▶ Retail bond issues in 2014, 2016 and 2017
- ▶ 2014 issue was mid-year so only partial accrual of coupon
- ▶ Assumed recent issue finalises in mid-June

Eps and dividend



- ▶ Full effect of large single \$100m investment coming through properly in late 2016 and into 2017
- ▶ 2016 results showing benefits of a wide range of investments
- ▶ 2016 and 2017E boosted by Petersen case
- ▶ Some large single claims may introduce volatility in the future

Source: Company data; Hardman & Co Research

Financials and Forecast

Post the issue and after repaying the loan note for the Gerchen Keller Capital acquisition, Burford will have gross debt of \$471m, but has added a net \$180m to its cash balances. Based on the 2016 year end, total assets less goodwill and intangible assets will be \$978m. The bond covenant is net debt (debt less cash) of less than 50% of eligible assets. Using the 2016 year end figures plus the new bond, that ratio is around 19%. Given Burford has to retain significant cash balances, the covenant should not be a restriction to its operations. Given we expect positive asset returns to keep the balance sheet growing, the debt capacity should continue to improve in the future.

With no news on trading, the only update to our estimates are for the bond issue. The issue was sooner, larger and with a lower coupon than we had assumed. It is the larger size that is most significant for our estimates and this has led to a slight downgrade to our all our figures, of 3% for 2017E, 2% in 2018E and 2019E.

Note that 2016 and 2017E are both boosted by the Peterson case. As always, the timing and amount of Burford's revenues are more uncertain than analysts and investors would like and all estimates should be viewed with appropriate scepticism.

Summary financials						
Year end Dec (\$m)	2014	2015	2016E	2017E	2018E	2019E
Revenue	82.0	103.0	163.4	233.1	211.5	259.2
Expenses	21.3	25.8	39.0	52.0	60.7	70.4
Operating Profit	60.7	77.2	124.4	181.0	150.8	188.8
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
Reported pre-tax	47.3	67.9	104.1	157.8	123.6	161.6
Reported taxation	-0.7	-2.2	4.8	-5.8	-4.4	-5.5
Minorities	1.2	1.2	0.6	0.0	0.0	0.0
Underlying net income	53.0	64.5	114.2	152.0	119.2	156.0
Statutory net income	45.4	64.5	108.3	152.0	119.2	156.0
Underlying Basic EPS (\$)	0.26	0.32	0.56	0.73	0.57	0.75
Statutory Basic EPS (\$)	0.22	0.32	0.53	0.73	0.57	0.75
Dividend (\$)	0.07	0.08	0.09	0.11	0.12	0.14
Balance sheet						
Total equity	382.7	433.1	462.2	558.8	678.0	834.0
Invested Capital	207.5	252.9	394.3	561.6	708.8	880.8
Fair Value Balance	266.8	334.2	559.7	833.7	1,078.7	1,372.1
Total Assets	533.2	608.7	826.4	1,163.6	1,282.8	1,438.8
NAV Per share (\$)	1.87	2.12	2.22	2.68	3.26	4.01
Return on Equity	12.4%	15.8%	21.0%	23.6%	15.8%	17.5%

Source: Hardman & Co, £1=\$1.30

Valuation

The Burford share price has continued to appreciate strongly, though much of this reflects the underlying performance of the business. The Petersen transaction means earnings are likely to be somewhat volatile over the next couple of years. The prospective P/E is 19.0 times for 2018E and 14.4 times for 2019E. We are estimating 31% growth in invested capital over this period, something that should ultimately be reflected in earnings – Burford remains very much a growth business.

Our return on equity forecast for 2019 is now 17.4%. With additional gearing Burford can grow this further, justifying a premium valuation.

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