



Burford Capital (BUR, BUR:LN)

Price (12/31/24): \$12.75 USD

Market Cap (12/31/24): \$2.9 billion USD

Stock Loss (2024): -18.3%

Portfolio Weight: 24.1%

Description

Burford is a global litigation finance company, which in essence means that they fund and otherwise monetize commercial lawsuits in exchange for a portion of the proceeds received. Burford trades both on AIM (the junior London stock exchange) in Great British Pounds (GBP) and on the New York Stock Exchange in US Dollars (USD).

2024 — Continued Growth

Business continues to be conducted as usual, with continued high levels of commitments and deployments and continued strong IRRs. Realizations and realized gains were up significantly for the first three quarters of 2024 vs. 2023, up 39% and 49%, respectively, hitting records for the company on top of an already strong 2023. That's purely counting cash gains, not including any fair value adjustments. Their income from managing third-party funds, especially their Sovereign Wealth Fund arrangement, remains strong as well, in the ~\$40-\$50 million range for 2024.

In last year's update, we highlighted how Burford has a number of ongoing cases with potential for YPF-like returns, specifically Sundance Resources' cases against Congo and Cameroon, Greenland Minerals' case against Greenland and Denmark, and the Sysco set of antitrust cases. Sundance has advanced their case significantly, with their arbitration hearing against Congo having taken place in November and their hearing against Cameroon scheduled to take place right now as I write these words. There was some discussion mid-year of Congo settling the case, but despite efforts on their part, they did not ultimately produce the cash needed to finalize the settlement, and the cases against both Congo and Cameroon are proceeding normally.



2024 Portfolio Update

In the Greenland Minerals case, there is not much to report other than that the arbitration tribunal has decided to bifurcate the proceedings, judging first on jurisdictional issues and then on the merits. This will delay ultimate resolution, which is years away at earliest, assuming that Greenland Minerals will prevail on the jurisdictional question, which we expect.

The Sysco matter has taken a turn for the worse. The judge overseeing the pork and beef cases refused to allow Burford to substitute for Sysco in the case, despite Burford having purchased Sysco's rights. This decision greatly complicates Burford's ability to pursue their rights, especially given Sysco's recalcitrance in pursuing the case themselves. Burford, naturally, is appealing this decision, but they face an uphill battle overturning the lower court given the wide discretion typically given to judges on such matters. This doesn't affect the chicken or turkey cases, which do proceed with Burford as plaintiff, but the pork and beef cases are a good chunk of the damages. Separately, it was ruled that Pilgrim Pride's settlement with Sysco was indeed valid and effective, over Burford's complaints and arguments to the contrary. All this points to Sysco as having a sharply lower chance of being an outlier winner for Burford.

YPF and Argentina

We continue to view Burford as highly undervalued on the basis of their regular, steady business. Nevertheless, the YPF litigation continues to dominate investor sentiment, naturally so given its massive size. Over 2024, the case has continued to plod through the courts, with Burford pursuing varied avenues of enforcement and discovery of relevant assets in attempted enforcement of the judgement against Argentina. Mostly, this is not expected to produce enough assets to actually satisfy the massive \$16 billion judgement (plus accruing interest). Rather, the point is to increase pressure on Argentina, essentially harassing them legally until it makes more sense for them to come to the negotiating table to settle than to continue trying to evade payment.

In short, Burford continues to pursue various legal tactics in the US and abroad, and Argentina's legal team continues to kick the can down the road with various delaying tactics and motions. Burford has won most of these skirmishes so far; indeed, Judge Preska's exasperation with Argentina's delaying tactics comes through quite clearly in her written decisions.

Argentina's legal wrangling is in sharp contrast to the conciliatory tone from the political sphere. Argentina's President, Javier Milei, continues to profess interest in Argentina returning to the international financial fold and paying its debts and legal liabilities, including Burford's claim specifically. Argentina's economy has also been recovering under the Milei administration's reforms, which gives hope that eventually there will be a mutually acceptable settlement.

We continue to expect settlement to be the ultimate endgame here, after Argentina exhausts all its legal appeals. Although the pace of legal matters is notoriously difficult to predict with any accuracy and delays are always possible, we do think that the appeals court is likely to rule on the YPF appeal by late 2025. When negotiations will result in a settlement is anyone's guess.

Conclusion

Despite the underlying good news for Burford the company, Burford the stock is down quite a bit, especially when considering the market's continued surge forward. But with the underlying company firing on all cylinders, we expect market sentiment to eventually turn and reward patient shareholders.



2024 Portfolio Update



Silicon Motion (SIMO)

Price (12/31/24): \$54.05

Stock Loss (2024): -11.8%

Market Cap (12/31/24): \$1.8 billion

Portfolio Weight: 24.4%

Description

Silicon Motion designs and sells controllers which manage the NAND flash memory ubiquitous in modern computing. Wherever there is NAND flash, there must be a controller, often one from Silicon Motion. SIMO is an ADR (American Depository Receipt) trading on the NASDAQ.

2024 — Growth Across the Board

We just recently discussed at some length in our third quarter letter about Silicon Motion's strengthening industry position, increasing market share, and growing revenue and margins. Over 2024, revenue has grown 25%+, gross margin has expanded 500 basis points, and net income has about doubled. We will not repeat our points from there at length. We will simply suffice with saying that the future looks even brighter, with continued growth in their core market segments as well as significant growth from their entry into new market segments. Silicon Motion's entry into the high-end PC market with their PCIe 5.0 controllers is off to a very strong start with major design wins. In fact, Silicon Motion has stated that based on their present design win pipeline, they expect to attain about 50% market share in the high-end PC segment over the next few years, from their present standing start. And their MonTitan enterprise controllers for AI and data centers have already garnered multiple Tier 1 customer wins, with more expected to come, in what is again a greenfield opportunity for the company.

Conclusion

We continue to believe that Silicon Motion is an amazing deal at these price levels, and we believe that as they continue to grow revenue, margins, and profits, the market will eventually cotton on, particularly as



2024 Portfolio Update

their growth continues to lay to rest the market's fear of insourcing. The truth is that as smaller nodes (e.g., 6 nm) are more expensive to develop controllers on, it increasingly makes little economic sense for the NAND manufacturers to insource controllers given their limited volume over which to amortize their development costs.

I cannot tell you how long it will take, but sooner or later, the stock price will have to come in line with the underlying business. As Benjamin Graham has famously said, in the short term the stock market is a voting machine, but in the long term it is a weighing machine.



2024 Portfolio Update



Kingsgate (KCN:AX)

Price (12/31/24): \$1.285 AUD

Market Cap (12/31/24): \$214 million USD

Stock Loss (2024): -6.5%

Portfolio Weight: 25.1%

Description

Kingsgate (Sydney: KCN) is an Australian gold mining company with one major asset, the Chatree gold mine in Thailand. Although closed for a number of years due to governmental action, Chatree has already restarted operations and is at the cusp of generating substantial cash flow. Nevertheless, Kingsgate continues to trade at a significant discount to its underlying value. Kingsgate trades in Australia in AUD (Australian dollars), but its business is mostly sensitive to USD (US Dollars). All numbers herein are in USD.

Refurbishment and Commissioning Complete

After many long years, Chatree is finally fully back in operations, with both plants up and running and collectively processing ore at above nameplate capacity. Now it is all a matter of execution, as the company ramps up waste stripping and ore mining and transitions from processing low-grade stockpile material to full-fledged ore. For fiscal year 2025, which ends in June, Kingsgate is expecting to produce 80,000-90,000 ounces of gold, increasing to 95,000-120,000 ounces in fiscal 2026 and beyond. As the rate of production increases, the cost per ounce is expected to drop, making the mine more profitable over time. At the same time, gold is close to \$2,800 an ounce, about 35% higher than the beginning of 2024, although you would not be able to tell this from looking at the stock price.

Outlook

After many delays, and admittedly taking longer than we originally estimated, Kingsgate is on the cusp of reaching full capacity using normalized grade ore (as opposed to low-grade stockpile). We will then be producing an annual rate of 95,000–120,000 ounces of gold, with topline revenues of \$250–\$325 million a



2024 Portfolio Update

year. After subtracting operating costs, royalties (assuming no change in royalty structure), interest, and non-cash depletion charges, we are left with an estimated net income of \$75–\$110 million, and cash flow of \$95–\$130 million. Even with absurdly conservative estimates, they should be making at least \$50 million net income when operating at full capacity and normalized grade ore, and much more than that in cash flow. With a present market cap of just above \$200 million, the company remains absurdly undervalued, as the market remains in show-me mode. We are thrilled to own Kingsgate at these levels and judge the decline in its stock price over 2024 to be wholly unwarranted. We expect to see great things from our Kingsgate investment.



2024 Portfolio Update



Valeura Energy (VLE:TO)

Price (12/31/24): \$7.26 CAD

Market Cap (12/31/24): \$560 million USD (\$803 million CAD)

Stock Gain (2024): +155.6%*

Portfolio Weight: 17.0%

* Fund purchased stock mid-2024 and gained a weighted average of +19.0% on its position during 2024

New Position

We mentioned in our third quarter letter that we have started building a position in a new company trading at a \$350 million valuation, with no debt and about \$150 million of cash, and making about \$150 million a year in net profit. We are now ready to reveal the company as Valeura Energy, and we intend to send investors a full write-up in our next quarterly letter. In the meantime, the story has only gotten better, with Valeura having ended 2024 with \$259 million in cash and an EV/FCF ratio of 1.9-3.0, phenomenally cheap.

Presentation

We recently presented on Valeura at the MOI Global Best Ideas conference, which took place two weeks ago. The presentation is available on our website (focuscapitaladvisers.com), under the [Research](#) tab. We hope and believe you will find the presentation informative.

