



NEW ZEALAND EQUITY RESEARCH 27 MAY 2021

INSURANCE

GENERAL INSURANCE

Tower 1H21 Result.

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Tower (TWR) reported a disappointing 1H21 result and we have again downgraded our estimates. We remain encouraged by the strong premium growth from the Tower Direct business and continued efficiency improvements, but now expect some permanent degradation to long-term claims ratios. While investors will no doubt welcome the long awaited return of dividends, TWR has taken a step backwards in its journey of restoring investor confidence.

NZX Code	TWR	Financials: Sep/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$0.77	NPAT* (NZ\$m)	28.0	21.7	30.8	37.1	PE	11.4	14.8	10.5	8.7
Spot Valuation	NZ\$0.95	EPS* (NZc)	6.7	5.2	7.3	8.8	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	Medium	EPS growth* (%)	-13.8	-23.1	41.7	20.5	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	421.6m	DPS (NZc)	0.0	4.9	5.5	6.2	Price / NTA	1.4	1.4	1.4	1.4
Market cap	NZ\$323m	Imputation (%)	0	0	25	100	Cash div yld (%)	0.0	6.4	7.2	8.2
Avg daily turnover	367.1k (NZ\$259k)	*Based on normali	sed profi	ts			Gross div yld (%)	0.0	6.4	7.9	11.3

What's changed?

Earnings: Underlying NPAT -8.1%/-0.8%/-1.8% in FY21/FY22/FY23

1H21 performance disappointing

While there were positive aspects to the 1H21 result (e.g. +14% GWP growth in the Tower Direct business, +12% GWP growth in Partnerships [excluding closed books] and +265bps improvement in the MER to 36.5%), we struggle with the notion of "solid earnings with positive growth". We also question the timing of last week's downgrade; why didn't it occur earlier given the meaningful hit to 1H21 earnings? Underlying NPAT for 1H21 was down -33% vs 1H20, and while large events claims expenses weighed on the result (NZ\$9.3m in 1H21 vs NZ\$2.8m in 1H20) these have been well flagged and there has been no movement in this figure since the company's ASM in February 2021 where it reiterated FY21 guidance for greater than +5% growth in Underlying NPAT.

Claims ratio dialled back

As foreshadowed in last week's announcement, TWR's performance has been hampered by an increase in large house claims and the "emerging" industry trends relating to inflationary pressures on building costs. In 1H21 large house claims increased in frequency to a reported all time high of 52, with TWR incurring NZ\$9.0m in claims and contributed 2.3% of the 3.6% increase in claims ratio relative to 1H20. While the 1H21 experience looks extreme relative to 1H20, it is not abnormal when considered in relation to average large house claims expense ratio over the previous six interim periods (5.0% vs 5.4% in 1H21). Early signs of building cost inflation in house claims contributed to a 1.1% headwind in the claims ratio, with TWR also calling out negative impact from motor (higher motor mix +1.9%, offset by lower motor claims -0.4%) while the Pacific business was a +1.4% benefit. While addressing claims inflation is a focus of the business, TWR is yet to move its rates in response. At our initiation we assumed a claims ratio (excluding large events) based on the median incurred over the last three years but have revised this up further in the short-term due to building cost inflation and also in the longer-term due to increasing share of new business weighted to Motor.

Implied 2H21 performance not so ugly, but positive growth still unlikely in the short-term

Based on comments last week reiterating the NZ2.5cps dividend and a commitment to the 60–80% payout ratio despite the downgrade, we mistakenly assumed a greater hit to 2H21 earnings vs 1H21 earnings. The 1H21 earnings were a major miss on our estimates, but taking the half full approach the outlook for 2H21 is now less bad, and implies -1% to -14% Underlying NPAT growth against the prior year (after tax adjustment for large claims differences).

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Tower Limited (TWR)

	Market data (NZ\$)						Spot valuations (NZ\$)					0.95
Communication Communicatio	Priced as at 26 May 2021					0.77	1. PE relative					0.96
Post-late of the part	•				(0.89 / 0.57	2. PB relative					0.95
Post-place	Market capitalisation (NZ\$m)					324.7	3. n/a					n/a
Post	Key WACC assumptions						DCF valuation summary (NZ\$m)					
Mathematic	Risk free rate					2.30%	Total firm value					n/a
Ponts and loss Account (NIXSm)	Equity beta					1.20	(Net debt)/cash					n/a
Post and Loss Account (NZs) 2014 2026 2025	WACC					10.1%	Less: Capitalised operating leases					n/a
Selection	Terminal growth					1.5%	Value of equity					n/a
Pose	Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Pope	Sales revenue	345.0	380.5	399.6	424.7	442.6	EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Normalised EMT	Normalised EBITDA	n/a	n/a	n/a	n/a	n/a	EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
Net microsteriose	Depreciation and amortisation	n/a	n/a	n/a	n/a	n/a	PE (x)	9.9	11.5	14.9	10.5	8.7
Associate income 0	Normalised EBIT	n/a	n/a	n/a	n/a	n/a	Price/NTA (x)	1.4	1.4	1.4	1.4	1.4
Total Part	Net interest	n/a	n/a	n/a	n/a	n/a	Free cash flow yield (%)	7.6	5.8	29.4	17.9	19.1
Minorialised NPAT Commailsed NPAT Commails	Associate income	0	0	0	0	0	Net dividend yield (%)	0.0	0.0	6.3	7.1	8.1
Normalised NPAT 16	Tax						Gross dividend yield (%)	0.0	0.0	6.3	7.8	11.3
Anomalicother 10,7 16,4 11,8 11,8 11,9 14,0	Minority interests											
Repurs Page Page			28.0	21.7			Key Ratios	2019A	2020A	2021E	2022E	2023E
Name							Return on assets (%)	n/a	n/a	n/a	n/a	n/a
DPS (cps) PS	Reported NPAT	16.6	11.9	20.4	29.0	35.7	Return on equity (%)	9.4	8.1	6.1	8.6	10.1
Crowth Rates Cro							Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
Province Province	DPS (cps)	0	0	4.9	5.5	6.2	EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
Revenue (%)							EBIT margin (%)	n/a	n/a	n/a	n/a	n/a
EBITO(AS)	Growth Rates	2019A	2020A	2021E	2022E	2023E	Capex to sales (%)	10.9	2.8	3.9	3.9	3.9
BBIT (S)	Revenue (%)	6.8	10.3	5.0	6.3	4.2	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Imputation (%)			0		100
Normalised EPS (%)	EBIT (%)	n/a	n/a	n/a	n/a	n/a	Pay-out ratio (%)	0	0	94	75	71
Columny DPS (%) Name Na	Normalised NPAT (%)	>100	2.7	-22.3	41.7	20.5						
Cash Flow (NZSm) 2019a 2021b 2021e 2023e 2023e 2023e 10 m/s 10	Normalised EPS (%)	84.7	-13.8	-23.1	41.7	20.5	Capital Structure	2019A	2020A	2021E	2022E	2023E
Cash Flow (NZ\$m) 2019A 2020A 2021B 2022B 2023B Total regulatory capital 10.66 10.3 83.3 84.4 84.8 EBIT DA n/a n/a n/a n/a n/a n/a observed pression 275 287 346 352 368 Working capital change n/a n/a <td>Ordinary DPS (%)</td> <td>n/a</td> <td>n/a</td> <td>n/a</td> <td>13.2</td> <td>13.5</td> <td>Solvency capital</td> <td>155.9</td> <td>150.5</td> <td>205.5</td> <td>209.2</td> <td>218.3</td>	Ordinary DPS (%)	n/a	n/a	n/a	13.2	13.5	Solvency capital	155.9	150.5	205.5	209.2	218.3
Page							Minimum solvency capital	56.6	52.3	59.4	59.4	59.4
Norking capital change Norking Capital cha	Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Total regulatory capital	106.6	102.3	83.3	84.4	84.4
Departing cash flow 0	EBITDA	n/a	n/a	n/a	n/a	n/a	Solvency ratio (%)	275	287	346	352	368
Other 0 0 0 0 0 0 cross written premium 35.8 385.1 402.3 427.6 444.6 Operating cash flow 24.6 18.9 95.6 58.0 51.9 Gross earned premium 345.0 380.5 399.6 424.7 442.6 Capital expenditure (37.6) (10.5) (11.5.) (16.5) (17.2) Reinsurance expense (55.0) (57.2) (58.3) 40.2 44.2 Cher (42.0) (9.4) (35.0) 12.8 4.9 Net claims expense (1.03) (19.7) (17.10) (178.7) (186.3) Funding available/required) (55.0) (10.5) 31.1 38.8 41.9 Large event claims expense (1.10) (19.0) (12.8) (18.6) Funding available/required) 0	Working capital change	n/a	n/a	n/a	n/a	n/a						
Coperating cash flow Coperating cash flow	Interest & tax paid	0	0	0	0	0	Operating Performance	2019A	2020A	2021E	2022E	2023E
Capital expenditure (37.6) (10.5) (15.5) (16.5) (17.2) Reinsurance expense (55.0) (57.2) (58.3) (61.9) (64.4)	Other	0					Gross written premium	356.8	385.1	402.3	427.6	445.6
CAQUISITIONS/CHIVENTHENEN	Operating cash flow		18.9	95.6			Gross earned premium	345.0	380.5	399.6	424.7	442.6
Other (42.0) (9.4) (35.0) (2.8) (2.9) Net claims expense (140.3) (149.7) (171.0) (178.7) (186.3) Funding available/(required) (55.0) (10.5) 31.1 38.8 41.9 Large event claims expense (1.3) (9.7) (13.8) (14.9) (15.5) Dividends paid 0 0 (10.5) (23.2) (26.3) Management and sales expenses (11.6) (126.6) (123.7) (127.0) (126.7) Equity raised/(returned) 0 44.9 0 0 Underwriting profit 32.4 37.3 32.6 42.3 49.7 (Increase)/decrease in net debt (55.0) 34.4 20.6 15.6 15.6 Investment and other revenue 7.0 6.4 12.2 28.8 4.4 Balance Sheet (NZ\$m) 2019A 2020A 2021E 2022E 2023E Underlying profit before tax 39.1 42.6 33.8 45.1 54.1 Working capital 171.6 184.1 143	Capital expenditure			(15.5)			Reinsurance expense	(55.0)	(57.2)	(58.3)	(61.9)	(64.4)
Funding available/(required) (55.0) (10.5)		0	(9.5)	(110)	0							
Dividends paid 0 0 10.5 23.2 26.3 Management and sales expenses 116.0 126.6 123.7 127.0							Net earned premium	290.0	323.3	341.2	362.8	378.2
Equity raised/(returned)			(9.4)	(35.0)	(2.8)	(2.9)						
Content Cont	Funding available/(required)	(55.0)	(9.4) (10.5)	(35.0) 31.1	(2.8) 38.8	(2.9) 41.9	Net claims expense	(140.3)	(149.7)	(171.0)	(178.7)	(186.3)
Part	Funding available/(required) Dividends paid	(55.0) O	(9.4) (10.5) 0	(35.0) 31.1 (10.5)	(2.8) 38.8 (23.2)	(2.9) 41.9 (26.3)	Net claims expense Large event claims expense	(140.3) (1.3) (116.0)	(149.7) (9.7)	(171.0) (13.8)	(178.7) (14.8)	(186.3) (15.5)
Balance Sheet (NZ\$m) 2019A 2020A 2021E 2022E 2023E Underlying profit before tax 39.1 42.6 33.8 45.1 54.1 Working capital 171.6 184.1 143.2 145.8 152.0 Income tax expense (11.6) (14.1) (11.2) (13.4) (16.0) Fixed assets 9.1 10.0 11.0 12.0 12.9 Underlying profit after tax 27.5 28.5 22.6 31.7 38.1 Intangibles 106.7 119.6 128.8 131.9 133.0 Abnormals (10.7) (16.2) (1.3) (1.8) (1.4) Right of use asset 0 7.2 14.2 11.8 9.5 Reported profit / (loss) after tax 16.8 12.3 21.3 29.9 36.6 Other assets 278.1 277.6 302.7 302.7 302.7 302.7 8.9 45.0 45.0 45.0 45.0 45.0 45.0 45.0 45.0 45.0 45.0 45.0 <td< td=""><td>Funding available/(required) Dividends paid Equity raised/(returned)</td><td>(55.0) 0 0</td><td>(9.4) (10.5) 0 44.9</td><td>(35.0) 31.1 (10.5) 0</td><td>(2.8) 38.8 (23.2) 0</td><td>(2.9) 41.9 (26.3) 0</td><td>Net claims expense Large event claims expense Management and sales expenses</td><td>(140.3) (1.3) (116.0) 32.4</td><td>(149.7) (9.7) (126.6)</td><td>(171.0) (13.8) (123.7) 32.6</td><td>(178.7) (14.8) (127.0) 42.3</td><td>(186.3) (15.5) (126.7)</td></td<>	Funding available/(required) Dividends paid Equity raised/(returned)	(55.0) 0 0	(9.4) (10.5) 0 44.9	(35.0) 31.1 (10.5) 0	(2.8) 38.8 (23.2) 0	(2.9) 41.9 (26.3) 0	Net claims expense Large event claims expense Management and sales expenses	(140.3) (1.3) (116.0) 32.4	(149.7) (9.7) (126.6)	(171.0) (13.8) (123.7) 32.6	(178.7) (14.8) (127.0) 42.3	(186.3) (15.5) (126.7)
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Fixed assets 9.1 10.0 11.0 12.0 12.9 Underlying profit after tax 27.5 28.5 22.6 31.7 38.1 Intangibles 106.7 119.6 128.8 131.9 133.0 Abnormals (10.7) (16.2) (1.3) (1.8) (1.4) Right of use asset 0 7.2 14.2 11.8 9.5 Reported profit / (loss) after tax 16.8 12.3 21.3 29.9 36.6 Other assets 278.1 277.6 302.7 302.7 302.7 302.7 302.7 50.2 50.5 50.6 59.8 604.2 61.2 Key ratios 50.5 50.6 59.8 604.2 61.2 Key ratios 50.5 13.7 10.7% 8.8% 5.0% 50.8 50.8 50.0% 10.7% 10.7% 8.8% 5.0% 50.8 50.0% 10.7% 10.7% 8.8% 5.0% 50.0% 50.0% 50.0% 50.0% 50.0% 50.0% 50.0% 50.0% 50.	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt	(55.0) 0 0 (55.0)	(9.4) (10.5) 0 44.9 34.4	(35.0) 31.1 (10.5) 0 20.6	(2.8) 38.8 (23.2) 0 15.6	(2.9) 41.9 (26.3) 0 15.6	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue	(140.3) (1.3) (116.0) 32.4 7.0 (0.3)	(149.7) (9.7) (126.6) 37.3 6.4 (1.1)	(171.0) (13.8) (123.7) 32.6 1.2	(178.7) (14.8) (127.0) 42.3 2.8 0	(186.3) (15.5) (126.7) 49.7 4.4 0
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Right of use asset 0 7.2 14.2 11.8 9.5 Reported profit / (loss) after tax 16.8 12.3 21.3 29.9 36.6 Other assets 278.1 277.6 302.7 302.7 302.7 302.7 Total funds employed 565.5 598.6 599.8 604.2 610.2 Key ratios 50.0 50.0 13.7% 10.7% 8.8% 5.0% Net debt/(cash) (47.1) (80.1) (99.3) (114.9) (130.5) Tower Direct GWP growth % 9.2% 13.7% 10.7% 8.8% 5.0% Lease liability 0 8.7 14.8 12.0 9.1 Partnership GWP growth % 2.9% 2.8% 2.4% 3.0% 3.0% Other liabilities 319.9 322.9 327.6 343.7 357.8 Total GWP growth % 6.2% 7.9% 4.5% 6.3% 4.2% Shareholder's funds 290.9 345.0 353.6 359.4 368.8 Total claims ratio % 40% 39% 36%	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital	(55.0) 0 0 (55.0) 2019A 171.6	(9.4) (10.5) 0 44.9 34.4 2020A	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6)	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1)	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2)	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4)	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0)
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Total funds employed 565.5 598.6 599.8 604.2 610.2 Key ratios Net debt/(cash) (47.1) (80.1) (99.3) (114.9) (130.5) Tower Direct GWP growth% 9.2% 13.7% 10.7% 8.8% 5.0% Lease liability 0 8.7 14.8 12.0 9.1 Partnership GWP growth% 2.9% 2.8% 2.4% 3.0% 3.0% Other liabilities 319.9 322.9 327.6 343.7 357.8 Total GWP growth% 6.2% 7.9% 4.5% 6.3% 4.2% Shareholder's funds 290.9 345.0 353.6 359.4 368.8 Total claims ratio % 49% 49% 54% 53% 53% Minority interests 1.8 2.2 3.0 3.9 4.9 MER% 40% 39% 36% 35% 34%	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles	(55.0) 0 0 (55.0) 2019A 171.6 9.1 106.7	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7)	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2)	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3)	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8)	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4)
Net debt/(cash) (47.1) (80.1) (99.3) (11.49) (13.5) Tower Direct GWP growth% 9.2% 13.7% 10.7% 8.8% 5.0% Lease liability 0 8.7 14.8 12.0 9.1 Partnership GWP growth% 2.9% 2.8% 2.4% 3.0% 3.0% Other liabilities 319.9 322.9 327.6 343.7 357.8 Total GWP growth% 6.2% 7.9% 4.5% 6.3% 4.2% Shareholder's funds 290.9 345.0 353.6 359.4 368.8 Total claims ratio % 49% 49% 54% 53% 53% Minority interests 1.8 2.2 3.0 3.9 4.9 MER% 40% 39% 36% 35% 34%	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles Right of use asset	(55.0) 0 0 (55.0) 2019A 171.6 9.1 106.7 0	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6 7.2	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8 14.2	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9 11.8	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0 9.5	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7)	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2)	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3)	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8)	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4)
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Other liabilities 319.9 322.9 327.6 343.7 357.8 Total GWP growth % 6.2% 7.9% 4.5% 6.3% 4.2% Shareholder's funds 290.9 345.0 353.6 359.4 368.8 Total claims ratio % 49% 49% 54% 53% 53% Minority interests 1.8 2.2 3.0 3.9 4.9 MER% 40% 39% 36% 35% 34%	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles Right of use asset Other assets Total funds employed	(55.0) 0 0 (55.0) 2019A 171.6 9.1 106.7 0 278.1 565.5	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6 7.2 277.6 598.6	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8 14.2 302.7 599.8	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9 11.8 302.7 604.2	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0 9.5 302.7 610.2	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals Reported profit / (loss) after tax Key ratios	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7) 16.8	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2) 12.3	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3) 21.3	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8) 29.9	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4) 36.6
Shareholder's funds 290.9 345.0 353.6 359.4 368.8 Total claims ratio % 49% 49% 54% 53% 53% Minority interests 1.8 2.2 3.0 3.9 4.9 MER % 40% 39% 36% 35% 34%	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles Right of use asset Other assets Total funds employed Net debt/(cash)	(55.0) 0 (55.0) 2019A 171.6 9.1 106.7 0 278.1 565.5 (47.1)	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6 7.2 277.6 598.6 (80.1)	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8 14.2 302.7 599.8 (99.3)	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9 11.8 302.7 604.2 (114.9)	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0 9.5 302.7 610.2 (130.5)	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals Reported profit / (loss) after tax Key ratios Tower Direct GWP growth %	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7) 16.8	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2) 12.3	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3) 21.3	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8) 29.9	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4) 36.6
Minority interests 1.8 2.2 3.0 3.9 4.9 MER% 40% 39% 36% 35% 34%	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles Right of use asset Other assets Total funds employed Net debt/(cash) Lease liability	(55.0) 0 (55.0) 2019A 171.6 9.1 106.7 0 278.1 565.5 (47.1) 0	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6 7.2 277.6 598.6 (80.1) 8.7	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8 14.2 302.7 599.8 (99.3) 14.8	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9 11.8 302.7 604.2 (114.9) 12.0	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0 9.5 302.7 610.2 (130.5) 9.1	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals Reported profit / (loss) after tax Key ratios Tower Direct GWP growth % Partnership GWP growth %	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7) 16.8	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2) 12.3	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3) 21.3	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8) 29.9	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4) 36.6
	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles Right of use asset Other assets Total funds employed Net debt/(cash) Lease liability Other liabilities	(55.0) 0 (55.0) 2019A 171.6 9.1 106.7 0 278.1 565.5 (47.1) 0 319.9	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6 7.2 277.6 598.6 (80.1) 8.7 322.9	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8 14.2 302.7 599.8 (99.3) 14.8 327.6	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9 11.8 302.7 604.2 (114.9) 12.0 343.7	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0 9.5 302.7 610.2 (130.5) 9.1 357.8	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals Reported profit / (loss) after tax Key ratios Tower Direct GWP growth % Partnership GWP growth % Total GWP growth %	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7) 16.8	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2) 12.3	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3) 21.3	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8) 29.9 8.8% 3.0% 6.3%	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4) 36.6
Total funding sources 565.5 598.6 599.8 604.2 610.2 Combined ratio % 89% 88% 90% 88% 87%	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles Right of use asset Other assets Total funds employed Net debt/(cash) Lease liability Other liabilities Shareholder's funds	(55.0) 0 (55.0) 2019A 171.6 9.1 106.7 0 278.1 565.5 (47.1) 0 319.9	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6 7.2 277.6 (80.1) 8.7 322.9 345.0	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8 14.2 302.7 599.8 (99.3) 14.8 327.6 353.6	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9 11.8 302.7 604.2 (114.9) 12.0 343.7 359.4	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0 9.5 302.7 610.2 (130.5) 9.1 357.8 368.8	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals Reported profit / (loss) after tax Key ratios Tower Direct GWP growth % Partnership GWP growth % Total GWP growth % Total claims ratio %	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7) 16.8 9.2% 2.9% 6.2% 49%	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2) 12.3 13.7% 2.8% 7.9%	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3) 21.3 10.7% 2.4% 4.5% 54%	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8) 29.9 8.8% 3.0% 6.3% 53%	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4) 36.6
	Funding available/(required) Dividends paid Equity raised/(returned) (Increase)/decrease in net debt Balance Sheet (NZ\$m) Working capital Fixed assets Intangibles Right of use asset Other assets Total funds employed Net debt/(cash) Lease liability Other liabilities Shareholder's funds Minority interests	(55.0) 0 (55.0) 2019A 171.6 9.1 106.7 0 278.1 565.5 (47.1) 0 319.9 290.9 1.8	(9.4) (10.5) 0 44.9 34.4 2020A 184.1 10.0 119.6 7.2 277.6 598.6 (80.1) 8.7 322.9 345.0 2.2	(35.0) 31.1 (10.5) 0 20.6 2021E 143.2 11.0 128.8 14.2 302.7 599.8 (99.3) 14.8 327.6 353.6 3.0	(2.8) 38.8 (23.2) 0 15.6 2022E 145.8 12.0 131.9 11.8 302.7 604.2 (114.9) 12.0 343.7 359.4 3.9	(2.9) 41.9 (26.3) 0 15.6 2023E 152.0 12.9 133.0 9.5 302.7 610.2 (130.5) 9.1 357.8 368.8 4.9	Net claims expense Large event claims expense Management and sales expenses Underwriting profit Investment and other revenue Financing costs Underlying profit before tax Income tax expense Underlying profit after tax Abnormals Reported profit / (loss) after tax Key ratios Tower Direct GWP growth % Partnership GWP growth % Total GWP growth % Total claims ratio % MER %	(140.3) (1.3) (116.0) 32.4 7.0 (0.3) 39.1 (11.6) 27.5 (10.7) 16.8	(149.7) (9.7) (126.6) 37.3 6.4 (1.1) 42.6 (14.1) 28.5 (16.2) 12.3 13.7% 2.8% 7.9% 49% 39%	(171.0) (13.8) (123.7) 32.6 1.2 0 33.8 (11.2) 22.6 (1.3) 21.3 10.7% 2.4% 4.5% 54% 36%	(178.7) (14.8) (127.0) 42.3 2.8 0 45.1 (13.4) 31.7 (1.8) 29.9 8.8% 3.0% 6.3% 53%	(186.3) (15.5) (126.7) 49.7 4.4 0 54.1 (16.0) 38.1 (1.4) 36.6 5.0% 3.0% 4.2% 53% 34%



1H21 Result Summary

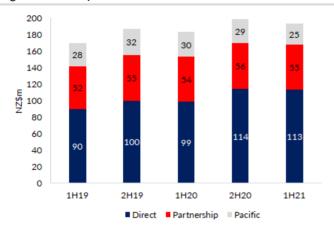
Figure 1. 1H21 Results Summary

NZ\$m	1H20	1H21	Change	1H21E	Actual vs
				FBMST	estimate
Operating Performance					
Gross written premium	183.6	193.9	5.6%	195.4	-0.8%
Gross earned premium	187.3	195.3	4.3%	194.9	0.2%
Reinsurance expense	(27.9)	(28.1)	0.7%	(29.3)	-3.9%
Net earned premium	159.4	167.1	4.8%	165.6	0.9%
Net claims expense	(71.1)	(80.5)	13.2%	(76.2)	5.7%
Large event claims expense	(2.8)	(9.3)	232.1%	(10.0)	-7.0%
Management and sales expenses	(62.5)	(61.0)	-2.4%	(60.9)	0.1%
Underwriting profit	22.9	16.2	-29.3%	18.5	-12.4%
Net Investment	2.2	0.7	-68.2%	0.6	16.7%
Other items	(0.4)	-	n/a	(0.2)	n/a
Underlying profit before tax	24.7	16.9	-31.6%	18.9	-10.6%
Income tax expense	(7.9)	(5.6)	-29.1%	(5.6)	-0.7%
Underlying NPAT	16.9	11.3	-33.1%	13.3	-14.8%
Reported NPAT	14.9	12.0	-19.8%	12.4	-3.5%
Underlying NPAT before large events	18.8	17.5	-6.8%	20.3	-13.7%
EPS (cps)	3.5	2.7	-21.9%	2.9	-5.9%
DPS (cps)	-	2.5	n/a	2.5	0.0%
Claims ratio excluding large events	44.6%	48.2%	357 bps	46.0%	(217) bps
Large events claims ratio	1.8%	5.6%	381 bps	5.1%	(43) bps
Total claims ratio	46.4%	53.7%	738 bps	52.0%	(170) bps
MER	39.0%	36.5%	(250) bps	36.8%	29 bps
Combined ratio	85.4%	90.3%	493 bps	88.8%	(147) bps
Reported solvency capital	150.4	180.4	19.9%		
Solvency Margin	97.5	122.1	25.2%		
Solvency Ratio	284%	309%	n/a		



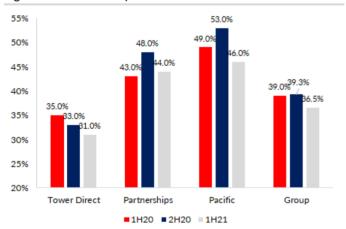
Key Charts

Figure 2. GWP by Business Unit



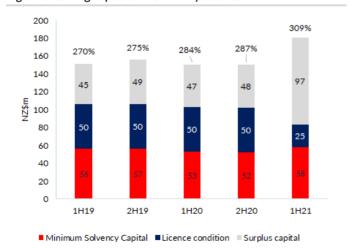
Source: Forsyth Barr analysis

Figure 4. Continued improvement in MER



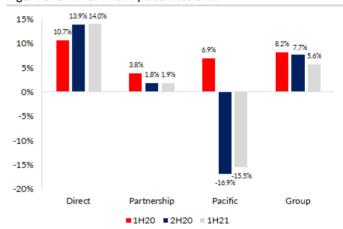
Source: Forsyth Barr analysis

Figure 6. Strong capital and solvency structure



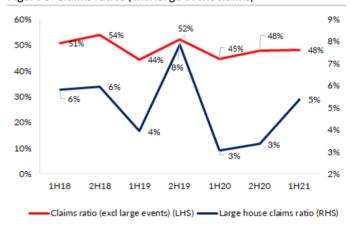
Source: Forsyth Barr analysis

Figure 3. GWP Growth by Business Unit



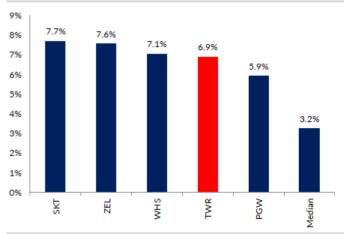
Source: Forsyth Barr analysis

Figure 5. Claims ratios (excl large event claims)



Source: Forsyth Barr analysis

Figure 7. 12month forward cash yield





Earnings changes

Figure 8. Earnings revisions

NZ\$m		FY21E			FY22E			FY23E	
Operating Performance	Old	New	Change	Old	New	Change	Old	New	Change
Gross written premium	404.7	402.3	-0.6%	426.9	427.6	0.1%	446.0	445.6	-0.1%
Gross earned premium	402.2	399.6	-0.6%	424.3	424.7	0.1%	443.2	442.6	-0.1%
Reinsurance expense	(60.2)	(58.3)	-3.1%	(61.7)	(61.9)	0.3%	(64.3)	(64.4)	0.1%
Net earned premium	342.0	341.2	-0.2%	362.6	362.8	0.1%	378.9	378.2	-0.2%
Net claims expense	(169.6)	(171.0)	0.8%	(177.7)	(178.7)	0.6%	(183.3)	(186.3)	1.6%
Large event claims expense	(13.7)	(13.8)	0.7%	(14.8)	(14.8)	0.1%	(15.5)	(15.5)	0.2%
Management and sales expenses	(124.4)	(123.7)	-0.6%	(126.9)	(127.0)	0.1%	(128.8)	(126.7)	-1.7%
Underwriting profit	34.2	32.6	-4.7%	43.2	42.3	-2.1%	51.3	49.7	-3.1%
Investment and other revenue	1.2	1.2	0.6%	2.7	2.8	3.1%	4.2	4.4	3.3%
Financing costs	(0.4)	-	n/a	(0.4)	-	n/a	(0.4)	-	n/a
Underlying profit before tax	35.1	33.8	-3.5%	45.5	45.1	-0.9%	55.2	54.1	-1.9%
Income tax expense	(10.5)	(11.2)	7.2%	(13.6)	(13.4)	-1.3%	(16.4)	(16.0)	-2.2%
Underlying profit after tax	24.6	22.6	-8.1%	32.0	31.7	-0.8%	38.7	38.1	-1.8%
Reported profit / (loss) after tax	22.8	21.3	-6.8%	30.6	29.9	-2.0%	37.6	36.6	-2.6%
EPS (cps)	5.3	4.8	-9.3%	7.2	6.9	-3.9%	8.8	8.5	-4.2%
DPS (cps)	5.2	4.9	-5.8%	5.7	5.5	-3.7%	6.5	6.2	-4.0%
Payout based on cash EPS	89%	92%		75%	75%		70%	70%	
Underlying ROE	7%	6%	-9.2%	9%	9%	-3.1%	11%	10%	-4.1%
Claims ratio excluding large events	49.6%	50.1%	52 bps	49.0%	49.3%	26 bps	48.4%	49.3%	87 bps
Large events claims ratio	4.0%	4.0%	4 bps	4.1%	4.1%	0 bps	4.1%	4.1%	2 bps
Total claims ratio	53.6%	54.2%	56 bps	53.1%	53.3%	26 bps	52.5%	53.4%	89 bps
MER	36.4%	36.2%	(14) bps	35.0%	35.0%	0 bps	34.0%	33.5%	(50) bps
Combined ratio	90.0%	90.4%	44 bps	88.1%	88.3%	26 bps	86.5%	86.9%	39 bps



Figure 9. Price performance



Source: Forsyth Barr analysis

Figure 10. Substantial shareholders

Shareholder	Latest Holding
Bain Capital Credit LP	20.0%
Salt Funds Management	8.4%
ACC	8.4%
Investment Services Group	6.5%
NZ Funds Management	5.2%

Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 11. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld	
(metrics re-weighted to reflect TWR's b	alance date - Sep	tember)	(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E	
Tower Ltd	TWR NZ	NZ\$0.77	NZ\$323	14.8x	10.5x	n/a	n/a	n/a	n/a	7.2%	
HEARTLAND GROUP HOLDINGS *	HGH NZ	NZ\$1.89	NZ\$1,107	12.7x	12.2x	n/a	n/a	n/a	n/a	5.9%	
INSURANCE AUSTRALIA GROUP	IAG AT	A\$4.93	A\$12,153	15.8x	16.2x	n/a	n/a	n/a	11.5x	4.9%	
SUNCORP GROUP	SUN AT	A\$10.87	A\$13,946	15.3x	15.3x	n/a	n/a	n/a	55.6x	5.2%	
QBE INSURANCE GROUP	QBE AT	US\$10.86	US\$16,020	13.6x	17.7x	n/a	n/a	n/a	12.5x	3.4%	
			Compco Average:	14.4x	15.3x	n/a	n/a	n/a	26.5x	4.8%	
EV = Current Market Cap + Actual Net Debt			TWR Relative:	3%	-32%	n/a	n/a	n/a	n/a	48%	

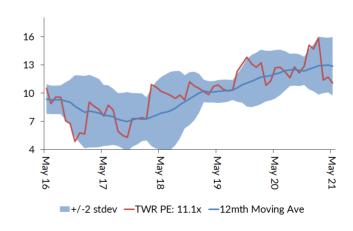
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (TWR) companies fiscal year end to reflect headline (TWR) companies fisc

Figure 12. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 13. One year forward PE (x)





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