

Tower Limited

New Year, New Upgrade

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Tower (TWR) has upgraded its FY25 underlying NPAT guidance by +18% at the midpoint to a new range of between NZ\$60m and NZ\$70m. The improved outlook has been driven by better-than-expected business-as-usual (BAU) claims performance, reflecting favourable weather, moderating inflation and the impacts of TWR's risk-based pricing over the first quarter. TWR's combined operating ratio (COR) for FY25 is now expected to be between 84%–86%, bringing its insurance margin in line with its much larger Australasian peers Suncorp (SUN) and Insurance Australia Group (IAG). With TWR trading at a near-record discount to these peers on a forward PE basis (with structural upside risk due to conservative large events provisioning), we continue to see significant valuation upside. Our blended spot valuation rises +5cps to NZ\$1.90, 10x our updated FY25 EPS estimate (after adjusting for the capital return). We see this as an undemanding multiple, given our estimates for +12% EPS CAGR from FY25 to FY30 and the potential for further capital returns.

NZX code	TWR	Financials: Sep/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$1.36	Rev (NZ\$m)	566.2	619.2	680.6	751.9	PE	6.2	7.2	7.0	5.7
Spot Valuation	NZ\$1.90 (from 1.85)	NPAT* (NZ\$m)	83.5	64.4	65.7	81.8	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	22.0	18.9	19.2	24.0	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	379.5m	DPS (NZc)	9.5	13.0	13.0	16.5	Price / NTA	2.3	2.3	2.1	1.9
Market cap	NZ\$514m	Imputation (%)	0	50	100	100	Cash div yld (%)	7.0	9.6	9.6	12.2
Avg daily turnover	444.4k (NZ\$505k)	*Based on normalised profits					Gross div yld (%)	7.0	11.5	13.3	16.9

What's changed?

- **Earnings:** FY25 underlying NPAT estimate rises +12% to NZ\$64.4m, while FY26 and FY27 move -5% and -1% respectively.
- **Spot valuation:** Rises +3% to NZ\$1.90.

Business-as-usual (BAU) claims continue to surprise positively as benign weather aids

Better-than-expected BAU claims performance was one of the key drivers behind TWR's four underlying NPAT guidance upgrades in FY24. This trend has continued in 1Q25, with TWR attributing strong claims performance to: 'a combination of factors, including continued benign weather, easing inflation, a lower number of total-loss house claims, and enhanced risk selection'. While we continue to see some of these factors as one-off, some of the reduction in TWR's BAU claims ratio is now more structural.

GWP growth revised down due to lower average premiums

TWR revised its GWP guidance for FY25 growth from +10% to +15% to between +7% and +12%. The more moderate one-year outlook partially reflects a reduction in average premiums, with TWR writing an increased proportion of lower-risk new house insurance and motor policies. While we reduce our medium-term GWP expectations in dollar terms, we expect this to be largely offset by lower claims and view a shift towards lower-risk policies as positive. Our expectations for +11% and +10% GWP growth in FY26 and FY27 respectively, remain. Positively, TWR noted customer growth had been strong in 1Q25.

Valuation undemanding, potential for further capital returns if large events are moderate

TWR trades at an undemanding PE multiple of ~7.2x on our FY25 estimates, at a near-record discount to its Australasian insurance peers, which have re-rated significantly over the last twelve months. We continue to view TWR as undervalued in both an absolute and relative sense, with further upside to earnings from a potential release of its conservative (>90% confidence interval) large events allowance. Through 1Q25, TWR has used just ~NZ\$3m of its FY25 NZ\$50m allowance. Another year of moderate large events would likely open the door to further capital returns to shareholders.

Tower Limited (TWR)

Market data (NZ\$)						Spot valuation (NZ\$)					1.90
Priced as at 06 Feb 2025					1.36	PE relative					2.02
52 week high / low					1.45 / 0.61	P/Book relative					1.50
Market capitalisation (NZ\$m)					514.2	DCF					2.17
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate					5.00%	Total firm value					843
Equity beta					1.18	(Net debt)/cash					(21)
WACC					10.9%	Less: Capitalised operating leases					(70)
Terminal growth					1.8%	Value of equity					751
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Revenue (Insurance revenue)	2023A	2024A	2025E	2026E	2027E	2023A	2024A	2025E	2026E	2027E	
Revenue (Insurance revenue)	487.6	566.2	619.2	680.6	751.9	EV/Sales (x)	0.4	0.3	0.2	0.2	
Normalised EBITDA	n/a	n/a	n/a	n/a	n/a	EV/EBITDA (x)	n/a	n/a	n/a	n/a	
Depreciation and amortisation	n/a	n/a	n/a	n/a	n/a	EV/EBIT (x)	n/a	n/a	n/a	n/a	
Normalised EBIT	n/a	n/a	n/a	n/a	n/a	PE (x)	72.4	6.2	7.2	7.0	
Net interest	n/a	n/a	n/a	n/a	n/a	Price/NTA (x)	10.7	2.3	2.3	2.1	
Associate income	0	0	0	0	0	Free cash flow yield (%)	-1.7	23.4	12.3	12.3	
Tax	(5.2)	(31.8)	(26.3)	(25.6)	(31.8)	Adj. free cash flow yield (%)	-1.7	23.4	12.3	12.3	
Minority interests	0	0	0	0	0	Net dividend yield (%)	0.0	7.0	9.6	9.6	
Normalised NPAT	2.6	70.9	64.4	65.7	81.8	Gross dividend yield (%)	0.0	7.0	11.5	13.3	
Abnormals/other	(3.6)	3.4	-	-	-						
Reported NPAT	(1.0)	74.3	64.4	65.7	81.8	Key Ratios					
Normalised EPS (cps)	1.9	22.0	18.9	19.2	24.0	2023A	2024A	2025E	2026E	2027E	
DPS (cps)	-	9.5	13.0	13.0	16.5	Return on assets (%)	n/a	n/a	n/a	n/a	
						Return on equity (%)	4.8	25.7	21.7	20.7	
						Return on funds employed (%)	3.8	23.2	19.5	18.9	
						EBITDA margin (%)	n/a	n/a	n/a	n/a	
						EBIT margin (%)	n/a	n/a	n/a	n/a	
						Capex to sales (%)	2.5	3.5	3.5	3.3	
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	
						Imputation (%)	0	0	50	100	
						Pay-out ratio (%)	0	43	69	68	
Growth Rates						Reported performance					
2023A	2024A	2025E	2026E	2027E	2023A	2024A	2025E	2026E	2027E		
Revenue (%)	13.2	16.1	9.4	9.9	10.5	Gross written premium	526.8	593.3	645.1	716.1	
EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Insurance revenue	487.6	566.2	619.2	680.6	
EBIT (%)	n/a	n/a	n/a	n/a	n/a	Reinsurance Premium	(69.5)	(85.8)	(82.6)	(84.9)	
Normalised NPAT (%)	-79.7	>100	-22.8	2.0	24.5	Net insurance revenue	418.1	480.4	536.6	595.8	
Normalised EPS (%)	-79.7	>100	-14.2	2.0	24.5	BAU claims expense	(230.2)	(230.9)	(252.2)	(294.9)	
Ordinary DPS (%)	-100.0	n/a	36.8	0.0	26.9	Large events claim expense	(38.2)	2.3	(50.0)	(55.0)	
						Reinsurance reinstatement	(17.4)	-	-	-	
						Management expenses	(123.9)	(142.1)	(146.5)	(153.7)	
						Commission	(10.1)	(8.6)	(9.1)	(10.1)	
						Net insurance service expense	(419.8)	(379.3)	(457.8)	(513.7)	
						Insurance service result	(1.7)	82.8	78.8	82.0	
						Investment and other revenue	14.3	21.6	15.8	13.1	
						Net insurance finance expense	(1.3)	(2.6)	(2.6)	(2.7)	
						Other income (costs)	0.2	(0.7)	(1.2)	(1.2)	
						Net result	11.5	119.4	90.8	91.3	
						Other income	2.7	0.8	(1.2)	(1.2)	
						Profit before taxation	7.8	102.7	90.8	91.3	
						Tax expense	(5.2)	(31.8)	(26.3)	(25.6)	
						Profit after taxation	2.6	70.9	64.4	65.7	
						NPAT (from discontinued ops)	(3.6)	3.4	-	-	
						NPAT (Reported)	(1.0)	74.3	64.4	65.7	
Balance Sheet (NZ\$m)						Key ratios					
2023A	2024A	2025E	2026E	2027E	2023A	2024A	2025A	2026A	2027A		
Working capital	(1.6)	(12.5)	(12.9)	(14.4)	(16.6)	Total GWP growth %	15.2%	12.6%	10.0%	11.0%	
Fixed assets	6.3	6.7	7.5	8.3	9.2	MER %	32.0%	31.4%	29.0%	27.5%	
Intangibles	98.5	96.6	97.9	99.4	101.1	Combined ratio %	100.4%	79.0%	85.3%	86.2%	
Right of use asset	23.2	20.0	16.8	13.5	10.3	Solvency ratio (%)	139%	212%	164%	159%	
Other assets	287.8	381.1	356.7	373.6	398.2						
Total funds employed	414.2	492.0	465.9	480.4	502.2						
Net debt/(cash)	(64.0)	(75.4)	(73.7)	(75.6)	(80.4)						
Lease liability	32.6	28.9	25.6	22.4	19.2						
Other liabilities	299.0	213.9	216.5	216.6	216.9						
Shareholder's funds	146.6	324.7	297.6	317.0	346.5						
Minority interests	-	-	-	-	-						
Total funding sources	414.2	492.0	465.9	480.4	502.2						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Earnings revisions

We increase our FY25 underlying NPAT earnings estimates by +12% on the back of the largely one-off benefits of lower BAU claims, reflecting favourable weather, moderating inflation, and the impacts of TWR's risk-based pricing over the first four months of the year. While we retain our GWP growth estimates, a lower base in FY25 flows through to lower GWP in dollar terms in FY26 and FY27. This is partially offset by a lower BAU claims ratio but leads to a -4% EPS decline in FY26. FY27 is largely unchanged.

We also update: (1) investment income for current bond yields, and (2) share count, with the share price for TWR's capital return now confirmed.

We expect TWR to provide further details at its ASM on **11 February 2025**.

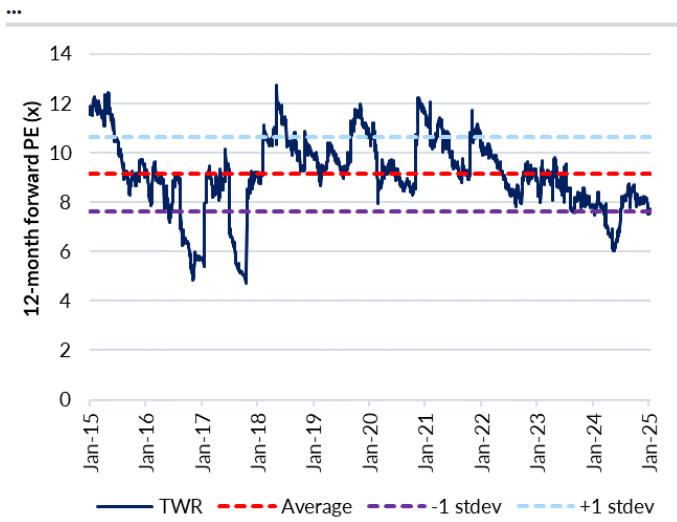
Figure 1. Earnings revisions (NZ\$m)

	FY25			FY26			FY27		
	Old	New	Change	Old	New	Change	Old	New	Change
Gross written premium	660.0	645.1	(2%)	732.6	716.1	(2%)	805.8	787.7	(2%)
Insurance revenue	626.6	619.2	(1%)	696.3	680.6	(2%)	769.2	751.9	(2%)
Reinsurance expense	(83.7)	(82.6)	(1%)	(88.3)	(84.9)	(4%)	(97.1)	(89.1)	(8%)
Net insurance revenue	543.0	536.6	(1%)	608.0	595.8	(2%)	672.1	662.8	(1%)
Net claims expense - BAU	(268.8)	(252.2)	(6%)	(302.5)	(294.9)	(3%)	(334.4)	(328.1)	(2%)
Net claims expense - Large events	(50.0)	(50.0)	+0%	(55.0)	(55.0)	+0%	(61.0)	(60.0)	(2%)
Management expenses	(146.6)	(146.5)	(0%)	(153.8)	(153.7)	(0%)	(161.3)	(160.4)	(1%)
Net Commission Expense	(9.2)	(9.1)	(1%)	(10.3)	(10.1)	(2%)	(11.4)	(11.3)	(1%)
Net insurance service expense	(474.6)	(457.8)	(4%)	(521.6)	(513.7)	(2%)	(568.1)	(559.7)	(1%)
Insurance service result	68.4	78.8	+15%	86.4	82.0	(5%)	104.0	103.0	(1%)
Net Investment Income	16.3	15.8	(3%)	13.8	13.1	(5%)	14.8	14.6	(2%)
Net insurance finance expense	(2.6)	(2.6)	+0%	(2.7)	(2.7)	+0%	(2.7)	(2.7)	+0%
Other income (costs)	(1.2)	(1.2)	n/a	(1.2)	(1.2)	n/a	(1.2)	(1.2)	n/a
Profit before tax	80.8	90.8	+12%	96.3	91.3	(5%)	114.9	113.6	(1%)
Tax expense	(23.4)	(26.3)	+12%	(27.0)	(25.6)	(5%)	(32.2)	(31.8)	(1%)
Profit after taxation from discontinued operation	-	-	n/a	-	-	n/a	-	-	n/a
Underlying Profit after tax	57.4	64.4	+12%	69.3	65.7	(5%)	82.7	81.8	(1%)
Canterbury impact	-	-	n/a	-	-	n/a	-	-	n/a
Other non-underlying items	-	-	n/a	-	-	n/a	-	-	n/a
Reported Profit after tax	57.4	64.4	+12%	69.3	65.7	(5%)	82.7	81.8	(1%)
EPS	16.6	18.9	+14%	20.0	19.2	(4%)	23.9	24.0	+0%

Source: Forsyth Barr analysis

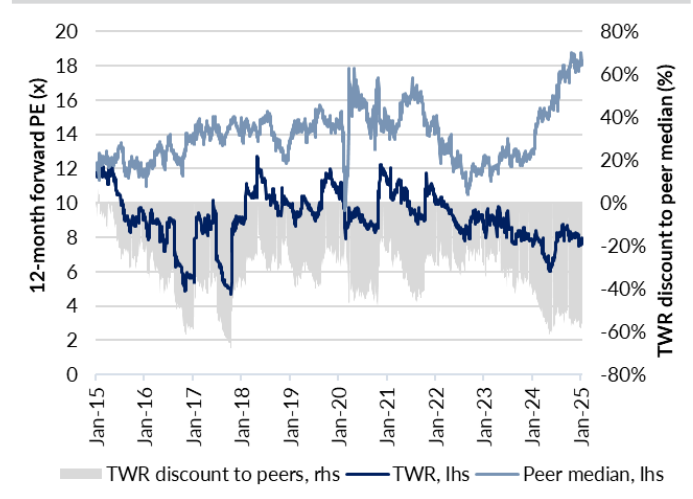
Key charts

Figure 2. TWR trades at a discount to its own historical average



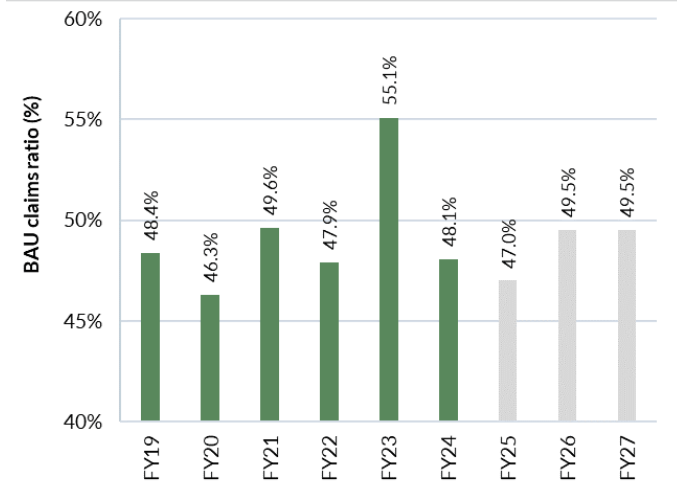
Source: Workspace, Forsyth Barr analysis

Figure 3. ... and at a near-record discount to its Australasian insurance peers



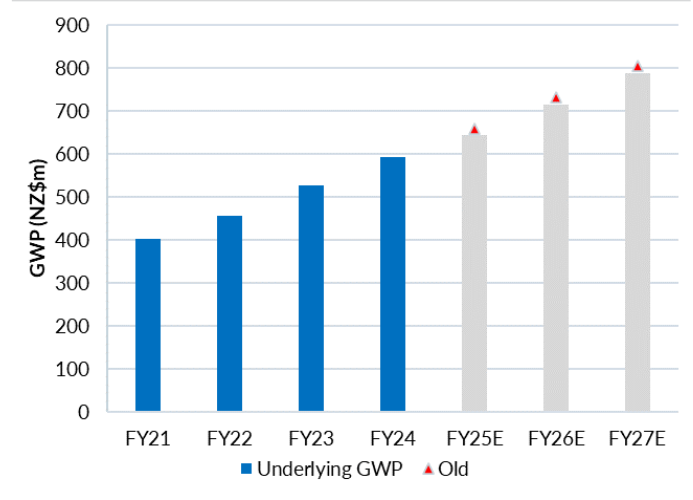
Source: Workspace, Forsyth Barr analysis

Figure 4. We expect another strong year for BAU claims



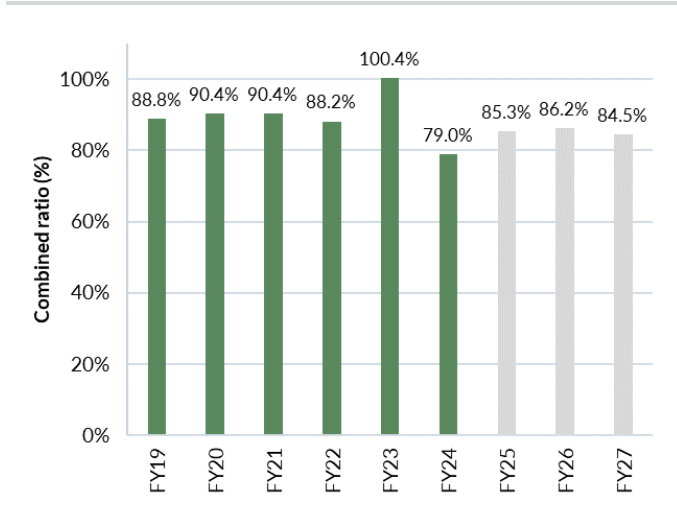
Source: Company, Forsyth Barr analysis

Figure 5. We moderate our GWP (in nominal terms) slightly



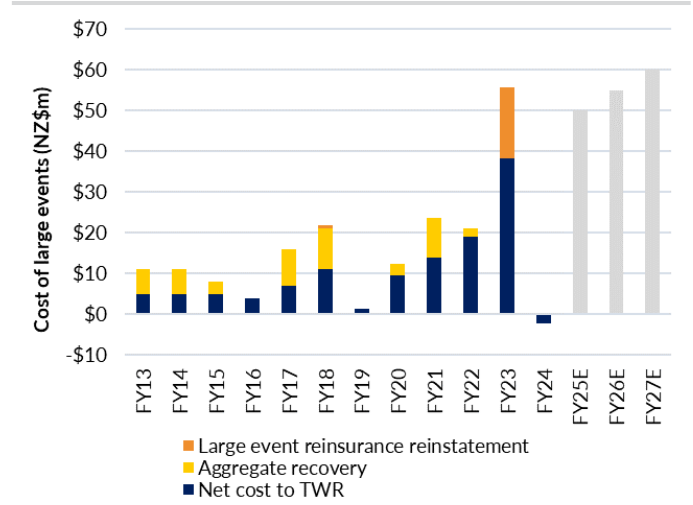
Source: Company, Forsyth Barr analysis

Figure 6. TWR's combined ratio is now in the mid 80% range



Source: Company, Forsyth Barr analysis

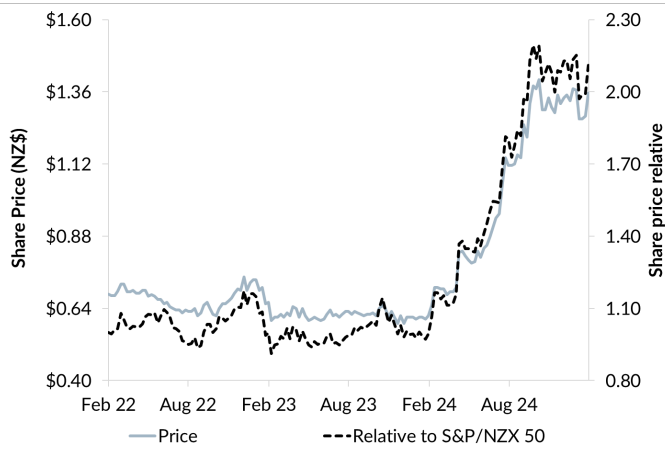
Figure 7. We retain TWR's full large events allowance for FY25



Source: Company, Forsyth Barr analysis

Additional data

Figure 8. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 9. Substantial shareholders

Shareholder	Latest Holding
Bain Capital Credit	17.8%
ACC	7.9%
Pacific International Insurance	5.8%

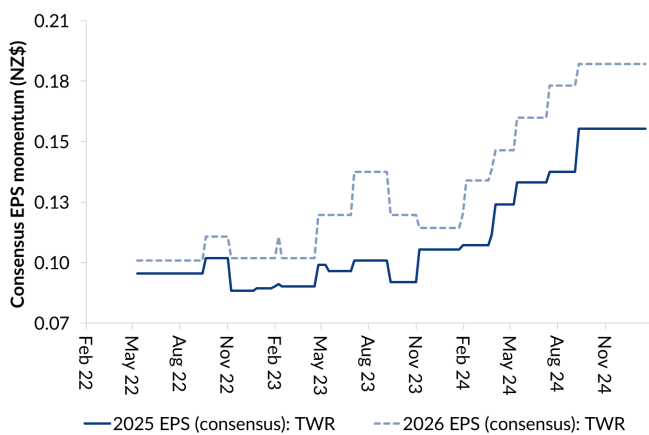
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 10. International valuation comparisons using consensus data (one and two year forward)

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				1yr	2yr	1yr	2yr	1yr	2yr	1yr
Tower	TWR NZ	NZ\$1.36	NZ\$514	8.0x	6.8x	n/a	n/a	5.1x	4.8x	8.5%
Heartland Group Holdings	HGH NZ	NZ\$1.12	NZ\$1,050	8.5x	7.1x	7.7x	6.4x	8.1x	6.8x	6.4%
Insurance Australia Group	IAG AT	A\$8.88	A\$20,992	19.6x	19.1x	n/a	n/a	13.6x	13.1x	3.7%
Suncorp Group	SUN AT	A\$20.14	A\$25,631	18.2x	17.7x	17.3x	17.0x	15.8x	15.6x	4.1%
QBE	QBE AT	US\$20.18	US\$30,379	17.5x	16.4x	14.7x	14.3x	14.5x	13.8x	3.5%

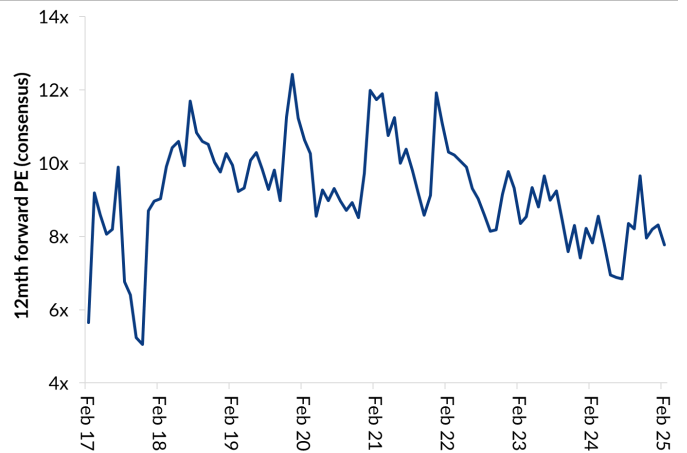
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 11. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 12. Consensus one year forward PE (x)



Source: LSEG, Forsyth Barr analysis, NOTE: Data excluded when PE<0x or >75x

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