

Tower Limited

Robust 1Q25 Trading Update at ASM

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Tower (TWR) provided a robust 1Q25 trading update, which included further detail on favourable business-as-usual (BAU) claims performance and solid customer growth. We see the latter as the key positive takeaway from the ASM update. TWR added a net +8k NZ policies during the period, predominantly lower-risk house and contents policies. Targeted growth in lower-risk customers highlights the effectiveness of TWR's risk-based pricing initiatives and provides confidence gross written premium (GWP) growth can be sustained as the insurance rate cycle cools. TWR has retained its targets for FY27, including GWP growth of +10% to +15%. Our GWP growth estimate for FY27 of +10% remains at the lower end of this range due to our more conservative assumptions on pricing at this point in the insurance cycle. We make no changes to our forecasts or blended spot valuation of NZ\$1.90.

NZX code	TWR	Financials: Sep/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$1.44	Rev (NZ\$m)	566.2	619.2	680.6	751.9	PE	6.5	7.6	7.5	6.0
Spot Valuation	NZ\$1.90	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	2.4	2.5	2.3	2.0
Market cap	NZ\$545m	Imputation (%)	0	50	100	100	Cash div yld (%)	6.6	9.1	9.1	11.5
Avg daily turnover	444.4k (NZ\$505k)	*Based on normalised profits					Gross div yld (%)	6.6	10.8	12.6	16.0

Solid 1Q25 trading update

TWR's 1Q25 trading update highlighted positive progress across most key metrics. The key driver of last week's underlying NPAT guidance upgrade was TWR's BAU claims ratio, which fell from 57% in 1Q24 to 39% in 1Q25, significantly below the long-run average of ~50%. Lower BAU claims reflected unusually favourable weather and moderating cost inflation during the period, alongside some positive impact from TWR's risk-based pricing and digital initiatives. Benign weather also led to just ~NZ\$3m of large events costs in 1Q25 (related to the Dunedin floods). TWR's management expense ratio (MER) fell from 32% in 1Q24 to 30% in 1Q25. The one minor negative from the update was a deceleration in GWP growth to +6% (excluding divested portfolios) in 1Q25 versus 1Q24.

Customer growth the key positive

Slower GWP growth in 1Q25 was driven by a moderation in rate increases and a reduction in average premiums as TWR wrote a higher proportion of lower-risk policies. However, customer numbers rose +2% sequentially during 1Q25 to 310k, with TWR adding +0.9k net NZ motor policies, and +7.1k net NZ house and contents policies during the period. TWR noted that 92% of the new house and contents policies are rated 'low' or 'very low' in its flood risk assessment framework. Solid growth in these targeted risks suggests that TWR can still achieve sustainable GWP growth as the insurance rate cycle cools. We forecast a ~+10% GWP CAGR for TWR over the next three years.

FY27 targets retained, already broadly consistent with our forecasts

TWR has retained its FY27 targets, including GWP growth of +10% to +15%. The reiteration of its FY27 GWP growth target suggests confidence in the medium-term outlook, despite a slightly softer GWP trajectory in FY25. TWR's other FY27 targets are: (1) a management expense ratio (MER) of <26%, (2) a combined operating ratio (COR) of <86%, and (3) a return on equity of >18%. These targets are broadly consistent with our existing forecasts, which we leave unchanged.

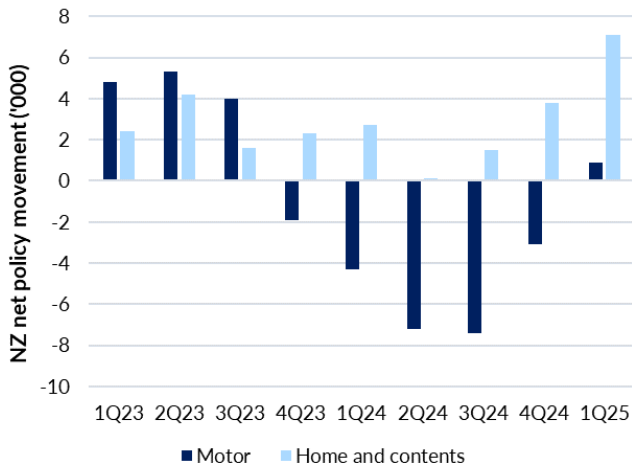
Tower Limited (TWR)

Market data (NZ\$)						Spot valuation (NZ\$)					1.90
Priced as at 11 Feb 2025					1.44	PE relative					2.02
52 week high / low					1.45 / 0.61	P/Book relative					1.50
Market capitalisation (NZ\$m)					544.6	DCF					2.17
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate					5.00%	Total firm value					844
Equity beta					1.18	(Net debt)/cash					(21)
WACC					10.9%	Less: Capitalised operating leases					(70)
Terminal growth					1.8%	Value of equity					752
Profit and Loss Account (NZ\$m)						Valuation Ratios					
	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)	0.5	0.3	0.2	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	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	n/a
Normalised EBIT	n/a	n/a	n/a	n/a	n/a	PE (x)	76.7	6.5	7.6	7.5	6.0
Net interest	n/a	n/a	n/a	n/a	n/a	Price/NTA (x)	11.3	2.4	2.5	2.3	2.0
Associate income	0	0	0	0	0	Free cash flow yield (%)	-1.6	22.1	11.6	11.6	14.7
Tax	(5.2)	(31.8)	(26.3)	(25.6)	(31.8)	Adj. free cash flow yield (%)	-1.6	22.1	11.6	11.6	14.7
Minority interests	0	0	0	0	0	Net dividend yield (%)	0.0	6.6	9.1	9.1	11.5
Normalised NPAT	2.6	70.9	64.4	65.7	81.8	Gross dividend yield (%)	0.0	6.6	10.8	12.6	16.0
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	n/a
						Return on equity (%)	4.8	25.7	21.7	20.7	23.6
						Return on funds employed (%)	3.8	23.2	19.5	18.9	21.8
						EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
						EBIT margin (%)	n/a	n/a	n/a	n/a	n/a
						Capex to sales (%)	2.5	3.5	3.5	3.3	3.1
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
						Imputation (%)	0	0	50	100	100
						Pay-out ratio (%)	0	43	69	68	69
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	787.7
EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Insurance revenue	487.6	566.2	619.2	680.6	751.9
EBIT (%)	n/a	n/a	n/a	n/a	n/a	Reinsurance Premium	(69.5)	(85.8)	(82.6)	(84.9)	(89.1)
Normalised NPAT (%)	-79.7	>100	-22.8	2.0	24.5	Net insurance revenue	418.1	480.4	536.6	595.8	662.8
Normalised EPS (%)	-79.7	>100	-14.2	2.0	24.5	BAU claims expense	(230.2)	(230.9)	(252.2)	(294.9)	(328.1)
Ordinary DPS (%)	-100.0	n/a	36.8	0.0	26.9	Large events claim expense	(38.2)	2.3	(50.0)	(55.0)	(60.0)
						Reinsurance reinstatement	(17.4)	-	-	-	-
						Management expenses	(123.9)	(142.1)	(146.5)	(153.7)	(160.4)
						Commission	(10.1)	(8.6)	(9.1)	(10.1)	(11.3)
						Net insurance service expense	(419.8)	(379.3)	(457.8)	(513.7)	(559.7)
						Insurance service result	(1.7)	82.8	78.8	82.0	103.0
						Investment and other revenue	14.3	21.6	15.8	13.1	14.6
						Net insurance finance expense	(1.3)	(2.6)	(2.6)	(2.7)	(2.7)
						Other income (costs)	0.2	(0.7)	(1.2)	(1.2)	(1.2)
						Net result	11.5	119.4	90.8	91.3	113.6
						Other income	2.7	0.8	(1.2)	(1.2)	(1.2)
						Profit before taxation	7.8	102.7	90.8	91.3	113.6
						Tax expense	(5.2)	(31.8)	(26.3)	(25.6)	(31.8)
						Profit after taxation	2.6	70.9	64.4	65.7	81.8
						NPAT (from discontinued ops)	(3.6)	3.4	-	-	-
						NPAT (Reported)	(1.0)	74.3	64.4	65.7	81.8
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%	10.0%
Fixed assets	6.3	6.7	7.5	8.3	9.2	MER %	32.0%	31.4%	29.0%	27.5%	25.9%
Intangibles	98.5	96.6	97.9	99.4	101.1	Combined ratio %	100.4%	79.0%	85.3%	86.2%	84.5%
Right of use asset	23.2	20.0	16.8	13.5	10.3	Solvency ratio (%)	139%	212%	164%	159%	155%
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

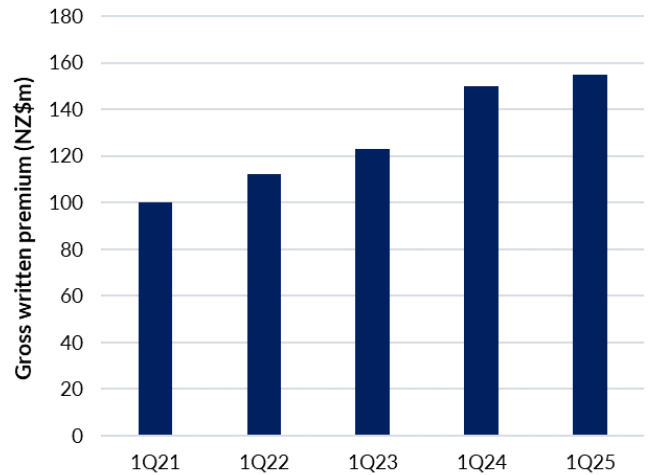
Key 1Q25 trading update charts

Figure 1. TWR added a net +8k NZ policies in 1Q25



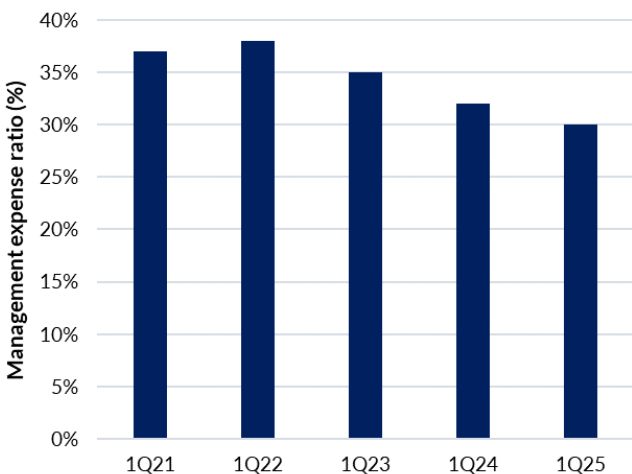
Source: Company, Forsyth Barr analysis

Figure 2. GWP rose +6% in 1Q25 over 1Q24



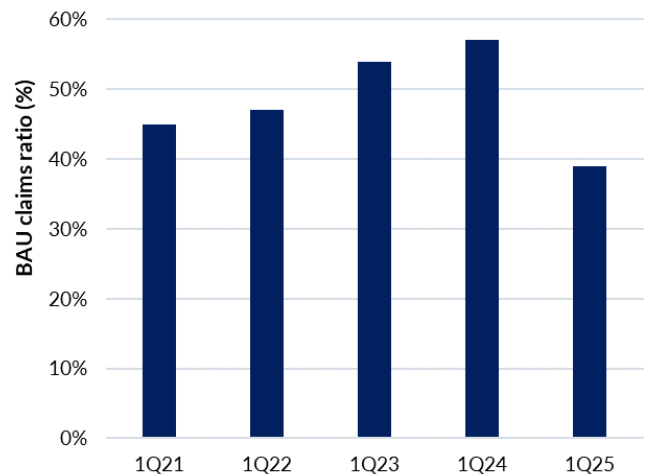
Source: Company, Forsyth Barr analysis

Figure 3. TWR's MER improved to 30% in 1Q25



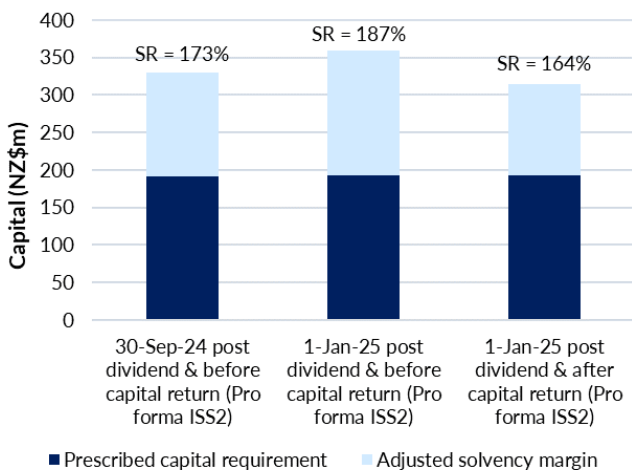
Source: Company, Forsyth Barr analysis

Figure 4. TWR's 1Q25 BAU claims ratio was very low



Source: Company, Forsyth Barr analysis

Figure 5. TWR remains in a strong capital position



Source: Company, Forsyth Barr analysis

Figure 6. TWR trades at a discount to its historical valuation



Source: Workspace, Forsyth Barr analysis

Additional data

Figure 7. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 8. Substantial shareholders

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

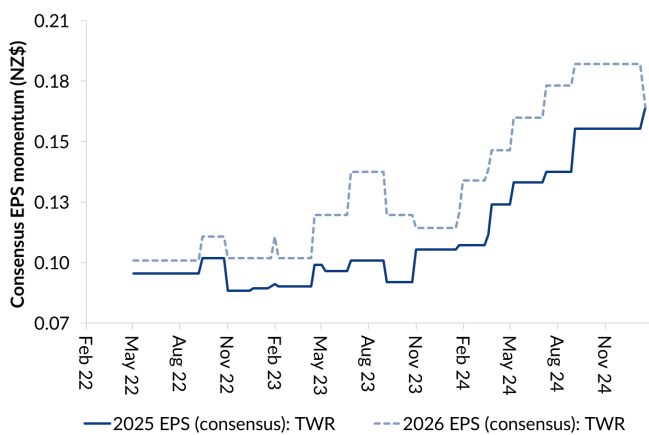
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 9. 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
				1yr	2yr	1yr	2yr	1yr	2yr	
Tower	TWR NZ	NZ\$1.44	NZ\$545	8.0x	7.4x	n/a	n/a	5.0x	5.1x	8.9%
Heartland Group Holdings	HGH NZ	NZ\$1.08	NZ\$1,012	8.1x	6.9x	7.4x	6.3x	7.9x	6.6x	6.8%
Insurance Australia Group	IAG AT	A\$8.90	A\$21,039	19.5x	19.1x	n/a	n/a	13.7x	13.1x	3.7%
Suncorp Group	SUN AT	A\$20.43	A\$25,993	18.4x	17.9x	17.5x	17.2x	15.7x	15.9x	4.1%
QBE	QBE AT	US\$20.42	US\$30,748	17.8x	16.6x	14.9x	14.5x	14.6x	14.0x	3.4%

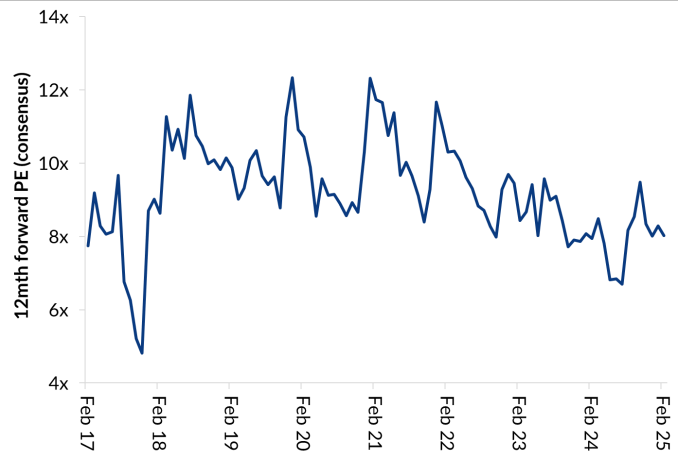
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 10. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 11. Consensus one year forward PE (x)



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

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