

# Tower Limited

## A Long Summer Warms 1H25 Expectations

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Tower's (TWR) 1H25 result, expected on 20 May 2025, will benefit from minimal large event costs and materially below-trend business-as-usual (BAU) claims, largely due to a continuation of benign weather. We estimate TWR will report 1H25 underlying NPAT of ~NZ\$60m, bringing it close to the bottom end of its FY25 guidance range of NZ\$60m to NZ\$70m, with six months remaining in the year. A favourable 1H25 result will likely open the door to further capital returns or special dividends, and means dividends will now almost certainly be fully imputed from 2H25. Bain has sold its 19.9% stake in TWR at NZ\$1.30, removing a long-standing overhang and improving liquidity ahead of a likely NZX50 index weight increase in June 2025. TWR is trading ~20% below its 10-year average ~9x PE, despite: (1) significantly improved scale, (2) reduced business risk, and (3) upside risk to consensus earnings due to conservative large events provisioning. While we remain cautious on the insurance cycle, investors are well compensated for the risk of softer premium growth—particularly with TWR offering a cash yield of ~9%. We lift our spot valuation +3% to NZ\$1.95 on higher near-term earnings.

NZX code	TWR	Financials: Sep/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$1.40	Rev (NZ\$m)	566.2	618.8	676.6	740.7	PE	6.4	5.6	7.4	6.0
Spot Valuation	NZ\$1.95 (from 1.90)	NPAT* (NZ\$m)	83.5	85.9	65.0	80.2	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	22.0	25.1	19.0	23.4	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	342.6m	DPS (NZc)	9.5	13.0	13.0	16.0	Price / NTA	2.3	2.2	2.0	1.8
Market cap	NZ\$480m	Imputation (%)	0	50	100	100	Cash div yld (%)	6.8	9.3	9.3	11.4
Avg daily turnover	757.1k (NZ\$959k)	*Based on normalised profits					Gross div yld (%)	6.8	11.1	12.9	15.9

### What's changed?

- **Earnings:** Underlying NPAT for FY25 lifts +33% to NZ\$85.9m on reduced large events and BAU claims with minor FY26/FY27 cuts.
- **Spot valuation:** Rises +NZ5 cps to NZ\$1.95, on the one-off short-term earnings uplift from benign weather.

### Benign weather leads to favourable large events claims

We estimate only NZ\$3m of TWR's FY25 NZ\$50m large events allowance was utilised in 1H25, relating to the October 2024 Dunedin floods. Assuming we are correct, lower-than-expected large events costs will improve TWR's 1H25 result by ~+NZ\$16m (NZ\$22m of unused allowance less tax). TWR sets its large events allowance (NZ\$50m in FY25) at a 90%+ confidence interval, creating structural upside risk to earnings guidance (and consensus estimates). We now factor in NZ\$28m of large events allowance for FY25, which may still prove conservative given large events have historically been heavily weighted to first-half periods.

### BAU claims significantly below trend

TWR's BAU claims ratio was 39% in 1Q25, significantly below the long-run average of 50%. BAU claims are generally lower in periods of benign weather, as there are likely to be fewer accidents caused by wet conditions, for example. However, moderate BAU claims in 1Q25 should also offer continued validation of TWR's strategic underwriting tilt towards lower-risk dwelling and motor policies. We estimate a 40% BAU claims ratio for 1H25, with favourable weather persisting through 2Q25.

### Valuation remains compelling

TWR trades at just ~7.4x our new FY26 underlying NPAT estimate (which normalises weather for BAU claims and assumes a conservative NZ\$55m in large event provision)—representing a ~54% discount to the average of its key peers, IAG (17.3x 12-month forward PE) and SUN (14.7x). If TWR were to return to its historical average discount of -35%, this would imply a share price of ~NZ\$1.97, broadly in line with our blended spot valuation. We believe a smaller discount versus history can, however, be justified.

**Tower Limited (TWR)**

<b>Market data (NZ\$)</b>						<b>Spot valuation (NZ\$)</b>					<b>1.95</b>
Priced as at 02 Apr 2025					<b>1.40</b>	PE relative					2.12
52 week high / low					1.52 / 0.70	P/Book relative					1.52
Market capitalisation (NZ\$m)					479.6	DCF					2.20
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>					
Risk free rate					5.00%	Total firm value					843
Equity beta					1.18	(Net debt)/cash					(21)
WACC					10.9%	Less: Capitalised operating leases					(45)
Terminal growth					1.8%	Value of equity					777
<b>Profit and Loss Account (NZ\$m)</b>						<b>Valuation Ratios</b>					
	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>		<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Revenue (Insurance revenue)	487.6	566.2	618.8	676.6	740.7	EV/Sales (x)	0.4	0.2	0.1	0.1	0.1
<b>Normalised EBITDA</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	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
<b>Normalised EBIT</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	PE (x)	74.8	6.4	5.6	7.4	6.0
Net interest	n/a	n/a	n/a	n/a	n/a	Price/NTA (x)	11.1	2.3	2.2	2.0	1.8
Associate income	0	0	0	0	0	Free cash flow yield (%)	-1.8	25.1	17.6	12.7	15.9
Tax	(5.2)	(31.8)	(35.1)	(25.3)	(31.2)	Adj. free cash flow yield (%)	-1.8	25.1	17.6	12.7	15.9
Minority interests	0	0	0	0	0	Net dividend yield (%)	0.0	6.8	9.3	9.3	11.4
<b>Normalised NPAT</b>	<b>2.6</b>	<b>70.9</b>	<b>85.9</b>	<b>65.0</b>	<b>80.2</b>	Gross dividend yield (%)	0.0	6.8	11.1	12.9	15.9
Abnormals/other	(3.6)	3.4	-	-	-	<b>Key Ratios</b>					
<b>Reported NPAT</b>	<b>(1.0)</b>	<b>74.3</b>	<b>85.9</b>	<b>65.0</b>	<b>80.2</b>		<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Normalised EPS (cps)	1.9	22.0	25.1	19.0	23.4	Return on assets (%)	n/a	n/a	n/a	n/a	n/a
DPS (cps)	-	9.5	13.0	13.0	16.0	Return on equity (%)	4.8	25.7	26.9	19.3	21.9
<b>Growth Rates</b>						Return on funds employed (%)	3.8	23.2	24.4	17.6	20.3
	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
Revenue (%)	13.2	16.1	9.3	9.3	9.5	EBIT margin (%)	n/a	n/a	n/a	n/a	n/a
EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Capex to sales (%)	2.5	3.5	3.5	3.3	3.1
EBIT (%)	n/a	n/a	n/a	n/a	n/a	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	-79.7	>100	2.9	-24.4	23.4	Imputation (%)	0	0	50	100	100
Normalised EPS (%)	-79.7	>100	14.0	-24.4	23.4	Pay-out ratio (%)	0	43	52	69	68
Ordinary DPS (%)	-100.0	n/a	36.8	0.0	23.1	<b>Reported performance</b>					
<b>Cash Flow (NZ\$m)</b>							<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	Gross written premium	526.8	593.3	644.4	708.8	772.6
EBITDA	n/a	n/a	n/a	n/a	n/a	<b>Insurance revenue</b>	<b>487.6</b>	<b>566.2</b>	<b>618.8</b>	<b>676.6</b>	<b>740.7</b>
Working capital change	n/a	n/a	n/a	n/a	n/a	Reinsurance Premium	(69.5)	(85.8)	(82.6)	(84.7)	(89.2)
Interest & tax paid	0	0	0	0	0	<b>Net insurance revenue</b>	<b>418.1</b>	<b>480.4</b>	<b>536.3</b>	<b>591.9</b>	<b>651.5</b>
Other	0	0	0	0	0	BAU claims expense	(230.2)	(230.9)	(244.0)	(293.0)	(322.5)
<b>Operating cash flow</b>	<b>10.0</b>	<b>145.2</b>	<b>109.3</b>	<b>86.6</b>	<b>102.8</b>	Large events claim expense	(38.2)	2.3	(28.0)	(55.0)	(60.0)
Capital expenditure	(12.0)	(19.7)	(21.7)	(22.4)	(23.2)	Reinsurance reinstatement	(17.4)	-	-	-	-
(Acquisitions)/divestments	(5.9)	-	-	-	-	Management expenses	(123.9)	(142.1)	(146.4)	(153.3)	(157.7)
Other	(1.3)	(101.9)	6.8	(18.7)	(28.5)	Commission	(10.1)	(8.6)	(9.1)	(10.1)	(11.1)
<b>Funding available/(required)</b>	<b>(9.2)</b>	<b>23.6</b>	<b>94.3</b>	<b>45.5</b>	<b>51.1</b>	<b>Net insurance service expense</b>	<b>(419.8)</b>	<b>(379.3)</b>	<b>(427.5)</b>	<b>(511.4)</b>	<b>(551.2)</b>
Dividends paid	(15.2)	(11.4)	(44.5)	(44.5)	(49.7)	<b>Insurance service result</b>	<b>(1.7)</b>	<b>82.8</b>	<b>108.7</b>	<b>80.6</b>	<b>100.3</b>
Equity raised/(returned)	-	-	(45.0)	-	-	Investment and other revenue	14.3	21.6	16.1	13.6	15.1
<b>(Increase)/decrease in net debt</b>	<b>(24.4)</b>	<b>12.2</b>	<b>4.8</b>	<b>0.9</b>	<b>1.5</b>	Net insurance finance expense	(1.3)	(2.6)	(2.6)	(2.7)	(2.7)
<b>Balance Sheet (NZ\$m)</b>						Other income (costs)	0.2	(0.7)	(1.2)	(1.2)	(1.2)
	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>Net result</b>	<b>11.5</b>	<b>119.4</b>	<b>121.0</b>	<b>90.2</b>	<b>111.4</b>
Working capital	(1.6)	(12.5)	(12.9)	(14.2)	(16.3)	Other income	2.7	0.8	(1.2)	(1.2)	(1.2)
Fixed assets	6.3	6.7	7.5	8.3	9.1	<b>Profit before taxation</b>	<b>7.8</b>	<b>102.7</b>	<b>121.0</b>	<b>90.2</b>	<b>111.4</b>
Intangibles	98.5	96.6	97.9	99.4	101.1	Tax expense	(5.2)	(31.8)	(35.1)	(25.3)	(31.2)
Right of use asset	23.2	20.0	16.8	13.5	10.3	<b>Profit after taxation</b>	<b>2.6</b>	<b>70.9</b>	<b>85.9</b>	<b>65.0</b>	<b>80.2</b>
Other assets	287.8	381.1	371.4	386.6	411.8	NPAT (from discontinued ops)	(3.6)	3.4	-	-	-
<b>Total funds employed</b>	<b>414.2</b>	<b>492.0</b>	<b>480.6</b>	<b>493.5</b>	<b>516.0</b>	<b>NPAT (Reported)</b>	<b>(1.0)</b>	<b>74.3</b>	<b>85.9</b>	<b>65.0</b>	<b>80.2</b>
Net debt/(cash)	(64.0)	(75.4)	(80.2)	(81.1)	(82.6)	<b>Key ratios</b>					
Lease liability	32.6	28.9	25.6	22.4	19.2		<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026A</b>	<b>2027A</b>
Other liabilities	299.0	213.9	216.3	214.8	213.4	Total GWP growth %	15.2%	12.6%	10.0%	10.0%	9.0%
Shareholder's funds	146.6	324.7	318.9	337.5	366.0	MER %	32.0%	31.4%	29.0%	27.6%	25.9%
Minority interests	-	-	-	-	-	Combined ratio %	100.4%	79.0%	79.7%	86.4%	84.6%
<b>Total funding sources</b>	<b>414.2</b>	<b>492.0</b>	<b>480.6</b>	<b>493.5</b>	<b>516.0</b>	Solvency ratio (%)	139%	212%	177%	172%	168%

\* 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](http://www.forsythbarr.co.nz/corporate-news-events/cesg-report)

## 1H25 result preview

We expect TWR to deliver a strong 1H25 result, with underlying NPAT rising +63% to NZ\$59.9m, supported by low large-event costs (~NZ\$3m) and a material reduction in the BAU claims ratio (we forecast 40.0%, down -974 bps on 1H24). Our GWP forecast of NZ\$315.7m represents an increase of +9% on 1H24, driven by pricing momentum and customer growth. We expect TWR's management expense ratio (MER) to moderate further to 29.0%, versus 31.3% in 1H24. Due to favourable large events and BAU claims, TWR's combined ratio will likely be at record low in 1H25 (FB estimate: 70.2%).

Figure 1. 1H25 earnings preview

	1H24 Actual	1H25 Forecast	Change
Gross written premium (GWP)	290.6	315.7	+9%
Insurance Revenue	274.6	301.7	+10%
Reinsurance Expense	(41.8)	(40.5)	(3%)
<b>Net insurance revenue</b>	<b>232.8</b>	<b>261.2</b>	<b>+12%</b>
Net claims expense - BAU	(115.8)	(104.5)	(10%)
Net claims expense - Large events	1.9	(3.0)	n/a
Management expenses	(68.3)	(71.4)	+5%
Net commission expense	(4.5)	(4.3)	(3%)
Net insurance service expense	(186.7)	(183.3)	(2%)
<b>Insurance service result</b>	<b>46.1</b>	<b>77.9</b>	<b>+69%</b>
Net Investment Income	10.0	8.3	n/a
Net insurance finance expense	(1.7)	(1.3)	n/a
Other income (costs)	(0.9)	(0.5)	n/a
Profit before tax	53.5	84.4	+58%
Tax expense	(16.8)	(24.6)	n/a
<b>Underlying Profit after tax</b>	<b>36.7</b>	<b>59.9</b>	<b>+63%</b>
Canterbury impact on outstanding claims	(0.8)	-	n/a
Other non-underlying items	0.2	-	n/a
<b>Reported Profit after tax</b>	<b>36.1</b>	<b>59.9</b>	<b>+66%</b>
Reinsurance ratio	15.2%	13.4%	-180 bps
Claims ratio excluding large events	49.7%	40.0%	-974 bps
Large claims expense ratio / net earned premiums	-0.8%	1.1%	196 bps
Claims ratio (=loss ratio)	48.9%	41.1%	-778 bps
Expense ratio (MER)	31.3%	29.0%	-226 bps
Combined ratio	80.2%	70.2%	-1003 bps
Net Commission Expense	1.9%	1.7%	-27 bps

Source: Company, Forsyth Barr analysis

## Bain stake sell-down

On 1 April 2025, Bain Capital exited its long-held 19.9% stake in TWR, selling down its 68.3 million shares at NZ\$1.30 in a block trade valued at NZ\$89m. The private equity firm had been the company's largest shareholder for the past seven years. Bain originally acquired the stake in March 2018 from Suncorp's New Zealand subsidiary, Vero Insurance, for NZ\$53.9m—equating to NZ\$0.80 per share—after Suncorp's proposed takeover of TWR was blocked by the New Zealand Commerce Commission. Bain's exit to a number of NZ and Australian institutions, plus a significant number of new retail shareholders, removes a structural overhang on the stock and is expected to improve liquidity. We expect TWR's NZX 50 index weight to increase, given the lift in free float, at the June 2025 index review. With Bain now fully off the register, investor attention can refocus on TWR's improving fundamentals, robust capital position, and potential for further re-rating.

## Earnings revisions

Post TWR's 1H25 balance date, we increase our FY25 earnings to account for lower large events costs. We reduce our large events allowance for FY25 by NZ\$22m (1H25 allowance of NZ\$25m less our estimate of NZ\$3m in large events costs incurred), thereby improving TWR's 1H25 result by ~+NZ\$16m (post-tax). We also lower our BAU claims ratio for 1H25 to 40%, against the 39% reported in 1Q25, with favourable weather persisting through 2Q25. This lifts our 1H25 result by a further ~+NZ\$6m (post-tax).

In FY26 and FY27 we moderate our premium growth modestly, with 1H25 results from IAG (NZ GWP growth of +4.7%) and SUN (NZ GWP growth of +6%) in February signalling a continued easing of the insurance premium cycle. We trim our GWP growth assumptions by -1% in both FY26 (from +11% to +10%) and FY27 (from +10% to +9%), placing us marginally below management's FY27 guidance range of +10% to +15% GWP growth. This sees a -1% and -2% reduction in FY26 and FY27 underlying NPAT respectively.

Figure 2. Earnings revision table (NZ\$m)

	FY25			FY26			FY27		
	Old	New	Change	Old	New	Change	Old	New	Change
Gross written premium	645.1	644.4	(0%)	716.1	708.8	(1%)	787.7	772.6	(2%)
Insurance revenue	619.2	618.8	(0%)	680.6	676.6	(1%)	751.9	740.7	(1%)
Reinsurance expense	(82.6)	(82.6)	+0%	(84.9)	(84.7)	(0%)	(89.1)	(89.2)	+0%
Net insurance revenue	536.6	536.3	(0%)	595.8	591.9	(1%)	662.8	651.5	(2%)
Net claims expense - BAU	(252.2)	(244.0)	(3%)	(294.9)	(293.0)	(1%)	(328.1)	(322.5)	(2%)
Net claims expense - Large events	(50.0)	(28.0)	(44%)	(55.0)	(55.0)	+0%	(60.0)	(60.0)	+0%
Management expenses	(146.5)	(146.4)	(0%)	(153.7)	(153.3)	(0%)	(160.4)	(157.7)	(2%)
Net Commission Expense	(9.1)	(9.1)	(0%)	(10.1)	(10.1)	(1%)	(11.3)	(11.1)	(2%)
Net insurance service expense	(457.8)	(427.5)	(7%)	(513.7)	(511.4)	(0%)	(559.7)	(551.2)	(2%)
<b>Insurance service result</b>	<b>78.8</b>	<b>108.7</b>	<b>+38%</b>	<b>82.0</b>	<b>80.6</b>	<b>(2%)</b>	<b>103.0</b>	<b>100.3</b>	<b>(3%)</b>
Net Investment Income	15.8	16.1	+2%	13.1	13.6	+3%	14.6	15.1	+3%
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	90.8	121.0	+33%	91.3	90.2	(1%)	113.6	111.4	(2%)
Tax expense	(26.3)	(35.1)	+33%	(25.6)	(25.3)	(1%)	(31.8)	(31.2)	(2%)
<b>Underlying Profit after tax</b>	<b>64.4</b>	<b>85.9</b>	<b>+33%</b>	<b>65.7</b>	<b>65.0</b>	<b>(1%)</b>	<b>81.8</b>	<b>80.2</b>	<b>(2%)</b>
Canterbury impact	-	-	n/a	-	-	n/a	-	-	n/a
Other non-underlying items	-	-	n/a	-	-	n/a	-	-	n/a
<b>Reported Profit after tax</b>	<b>64.4</b>	<b>85.9</b>	<b>+33%</b>	<b>65.7</b>	<b>65.0</b>	<b>(1%)</b>	<b>81.8</b>	<b>80.2</b>	<b>(2%)</b>
EPS	18.9	25.1	+33%	19.2	19.0	(1%)	24.0	23.4	(2%)

Source: Forsyth Barr analysis

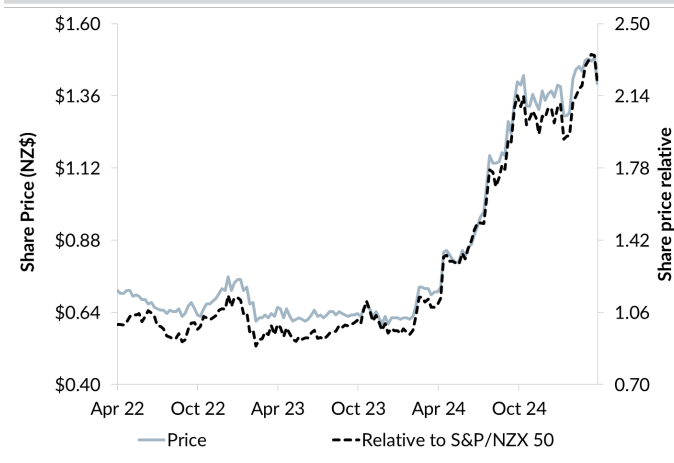
Figure 3. Estimates relative to management guidance

	FY25 Estimate	FY25 Mgt guidance	FY26 Estimate	FY26 Mgt guidance	FY27 Estimate	FY27 Mgt guidance
GWP growth (%)	+10.0%	+7% to +12%	+10%		+9%	+10% to +15%
Large events allowance (NZ\$m)	\$28m	\$50m	\$55m		\$60m	
MER	29.0%	<29%	27.6%		25.9%	<26%
Combined operating ratio (%)	79.7%	84% to 86%	86.4%		84.6%	<86%
Underlying NPAT (NZ\$m)	\$85.9m	\$60m to \$70m	\$65.0m		\$80.2m	
ROE (%)	24.0%	13% - 17%	17.7%		20.4%	>18%

Source: Company, Forsyth Barr analysis

## Additional data

**Figure 4. Share price performance**



Source: LSEG, Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
ACC	9.1%
Pacific International Insurance	5.8%

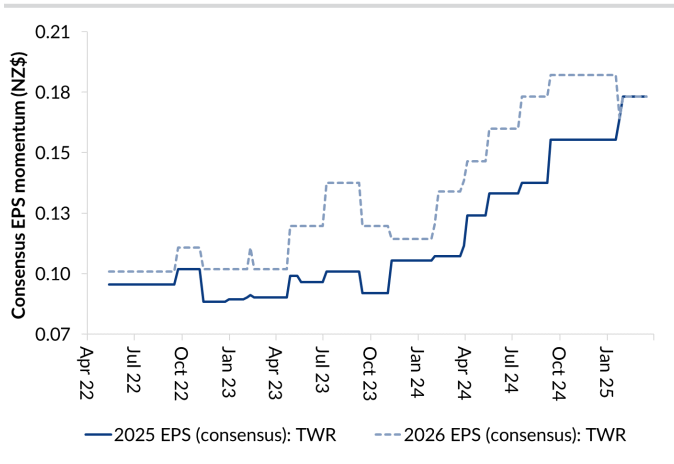
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 6. 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\$1.38	NZ\$474	7.7x	7.0x	n/a	n/a	4.3x	4.3x	9.2%
Heartland Group Holdings	HGH NZ	NZ\$0.77	NZ\$724	9.3x	6.8x	9.4x	7.0x	9.7x	7.2x	5.8%
Insurance Australia Group	IAG AT	A\$7.76	A\$18,355	17.6x	17.2x	n/a	n/a	12.3x	11.9x	4.0%
Suncorp Group	SUN AT	A\$19.29	A\$20,890	16.2x	16.0x	13.4x	13.5x	12.3x	12.6x	4.8%
QBE	QBE AT	US\$22.36	US\$33,757	18.6x	17.8x	16.2x	15.9x	14.5x	13.7x	3.4%

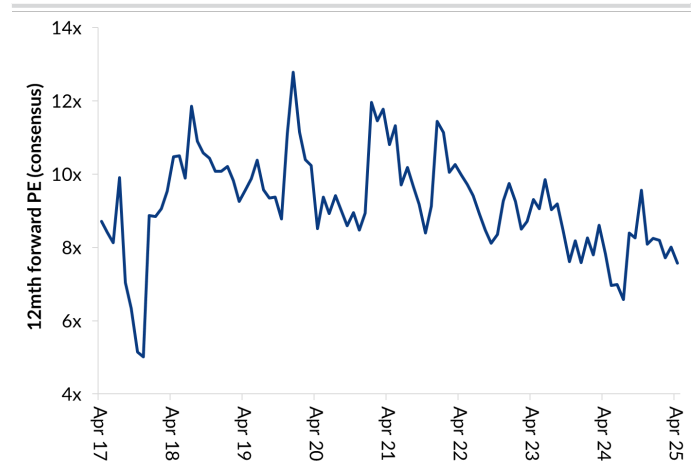
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

**Figure 7. Consensus EPS momentum (NZ\$)**



Source: Bloomberg, Forsyth Barr analysis

**Figure 8. Consensus one year forward PE (x)**



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

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