NEW ZEALAND EQUITY RESEARCH | INSURANCE | GENERAL INSURANCE
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Tower Limited
Softening Reinsurance Costs Reward Risk Focus

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Tower Limited (TWR) placed its FY25 reinsurance programme in September 2024, achieving a substantial improvement in cover cost-effectiveness. The programme still includes three major catastrophe events, but TWR's reinsurance expense ratio is set to fall ~180 bps from 15.1% in FY24 to ~13.3% in FY25. This reflects: (1) increased reinsurance capacity; and (2) what we believe is growing reinsurer confidence in TWR's granular risk-based pricing—helping to offset its scale disadvantage versus larger peers. Over the past year, Australasian peers have reinsured less and retained more risk; however, more recently the global reinsurance market has begun to soften. Against this backdrop, we now forecast TWR's reinsurance costs to ease further in FY26. Relative to history, TWR now has: (1) materially lower reinsurance costs relative to insurance revenue; (2) reduced exposure to risks like flooding due to its house-by-house risk-based pricing; and (3) significantly more conservative large-event provisioning. TWR trades at a ~20% discount to its ten-year average PE and a near-record discount to key Australasian peers IAG and SUN. We retain a positive view on TWR despite our recent medium-term earnings downgrade on softer GWP growth expectations. Our blended spot valuation remains NZ$1.70.

NZX code	TWR
Share price	NZ$1.35
Spot Valuation	NZ$1.70
Risk rating	High
Issued shares	342.6m
Market cap	NZ$462m
Avg daily turnover	741.8k (NZ$966k)

Financials: Sep/	24A	25E	26E	27E
Rev (NZ$m)	566.2	604.2	630.5	662.0
NPAT* (NZ$m)	83.5	91.0	61.2	68.3
EPS* (NZc)	22.0	26.6	17.9	19.9
DPS (NZc)	9.5	14.0	12.0	13.5
Imputation (%)	0	50	100	100

*Based on normalised profits

Valuation (x)	24A	25E	26E	27E
PE	6.1	5.1	7.6	6.8
EV/EBIT	n/a	n/a	n/a	n/a
EV/EBITDA	n/a	n/a	n/a	n/a
Price / NTA	2.2	2.1	2.0	1.8
Cash div yld (%)	7.0	10.4	8.9	10.0
Gross div yld (%)	7.0	12.4	12.3	13.9

Reinsurance terms improve as market conditions stabilise

TWR's reinsurance programme for FY25 (which began 1 October 2024) covers three large events, similar to the structure in place for FY24. It provides cover of up to NZ$800m for each of the first two events (up from NZ$750m in FY24), and up to NZ$85m for a third event (up from NZ$75m in FY24). The excess on the first two events has increased to NZ$18.75m per event for FY25 (up from NZ$16.9m in FY24), reflecting the roll-off of historic multi-year arrangements. However, the excess for a third event remains unchanged at NZ$20m. Overall, we view the FY25 reinsurance programme as incrementally positive for TWR, particularly because of its significantly lower cost relative to our prior expectations. This improvement has been driven by rising reinsurance market capacity and growing confidence in TWR's house-by-house, risk-based pricing capabilities.

Multi-year agreements may reduce volatility, but signs of a softening reinsurance market are appearing

TWR has secured new multi-year agreements with key reinsurers for a proportion of its cover. This move should enhance cost predictability and mitigate volatility in future reinsurance pricing cycles. Notably, the global reinsurance market appears to be softening, boding well for the insurance industry's FY26 costs, which we now assume will fall versus FY25.

Balancing risk retention with cost optimisation amid a highly conservative large-event allowance

TWR's FY25 reinsurance programme appears to balance affordability and risk retention, with the excesses for the first two catastrophe events rising by ~+11% from FY24 to NZ$18.75m per event. Further, TWR's FY25 large-event loss allowance remains highly conservative at NZ$50m, set at a >90% confidence interval. This conservatism, in turn, substantially compresses our forward PE multiples by factoring in a near worst-case large-event (but not catastrophe-level) scenario. Following our 23 April 2025 note, we now assume TWR's large-event allowance to be flat at NZ$50m over FY26 and FY27 on our reduced GWP growth expectations.

Tower Limited (TWR)

Market data (NZ$)	
Priced as at 25 Apr 2025	**1.35**
52 week high / low	1.52 / 0.78
Market capitalisation (NZ$m)	462.4

Spot valuation (NZ$)	**1.70**
PE relative	1.98
P/Book relative	1.48
DCF	1.64

Key WACC assumptions	
Risk free rate	5.00%
Equity beta	1.18
WACC	10.9%
Terminal growth	1.8%

DCF valuation summary (NZ$m)	
Total firm value	650
(Net debt)/cash	(21)
Less: Capitalised operating leases	(45)
Value of equity	584

Profit and Loss Account (NZ$m)	2023A	2024A	2025E	2026E	2027E
Revenue (Insurance revenue)	487.6	566.2	604.2	630.5	662.0
Normalised EBITDA	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Depreciation and amortisation	n/a	n/a	n/a	n/a	n/a
Normalised EBIT	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Net interest	n/a	n/a	n/a	n/a	n/a
Associate income	-	-	-	-	-
Tax	(5.2)	(31.8)	(33.9)	(23.8)	(26.5)
Minority interests	-	-	-	-	-
Normalised NPAT	**2.6**	**70.9**	**91.0**	**61.2**	**68.3**
Abnormals/other	(3.6)	3.4	(7.9)	-	-
Reported NPAT	**(1.0)**	**74.3**	**83.1**	**61.2**	**68.3**
Normalised EPS (cps)	1.9	22.0	26.6	17.9	19.9
DPS (cps)	-	9.5	14.0	12.0	13.5

Valuation Ratios	2023A	2024A	2025E	2026E	2027E
EV/Sales (x)	0.3	0.2	0.1	0.1	0.1
EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
PE (x)	72.2	6.1	5.1	7.6	6.8
Price/NTA (x)	10.7	2.2	2.1	2.0	1.8
Free cash flow yield (%)	-1.9	26.0	15.7	10.6	12.6
Adj. free cash flow yield (%)	-1.9	26.0	15.7	10.6	12.6
Net dividend yield (%)	0.0	7.0	10.4	8.9	10.0
Gross dividend yield (%)	0.0	7.0	12.4	12.3	13.9

Key Ratios	2023A	2024A	2025E	2026E	2027E
Return on assets (%)	n/a	n/a	n/a	n/a	n/a
Return on equity (%)	4.8	25.7	28.9	18.6	19.4
Return on funds employed (%)	3.8	23.2	26.2	17.0	18.0
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	3.6	3.5	3.5
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	0	0	50	100	100
Pay-out ratio (%)	0	43	53	67	68

Growth Rates	2023A	2024A	2025E	2026E	2027E
Revenue (%)	13.2	16.1	6.7	4.3	5.0
EBITDA (%)	n/a	n/a	n/a	n/a	n/a
EBIT (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	-79.7	>100	9.0	-32.7	11.5
Normalised EPS (%)	-79.7	>100	20.7	-32.7	11.5
Ordinary DPS (%)	-100.0	n/a	47.4	-14.3	12.5

Cash Flow (NZ$m)	2023A	2024A	2025E	2026E	2027E
EBITDA	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Working capital change	n/a	n/a	n/a	n/a	n/a
Interest & tax paid	-	-	-	-	-
Other	-	-	-	-	-
Operating cash flow	**10.0**	**145.2**	**97.6**	**74.5**	**84.3**
Capital expenditure	(12.0)	(19.7)	(21.6)	(22.2)	(22.9)
(Acquisitions)/divestments	(5.9)	-	-	-	-
Other	(1.3)	(101.9)	6.8	(18.7)	(28.5)
Funding available/(required)	**(9.2)**	**23.6**	**82.7**	**33.6**	**33.0**
Dividends paid	(15.2)	(11.4)	(46.2)	(44.5)	(43.7)
Equity raised/(returned)	-	-	(45.0)	-	-
(Increase)/decrease in net debt	**(24.4)**	**12.2**	**(8.5)**	**(11.0)**	**(10.7)**

Reported performance	2023A	2024A	2025E	2026E	2027E
Gross written premium	526.8	593.3	615.1	645.8	678.1
Insurance revenue	**487.6**	**566.2**	**604.2**	**630.5**	**662.0**
Reinsurance Premium	(69.5)	(85.8)	(80.4)	(79.4)	(81.8)
Net insurance revenue	**418.1**	**480.4**	**523.8**	**551.0**	**580.2**
BAU claims expense	(230.2)	(230.9)	(225.2)	(264.5)	(282.8)
Large events claim expense	(38.2)	2.3	(28.0)	(50.0)	(50.0)
Reinsurance reinstatement	(17.4)	-	-	-	-
Management expenses	(123.9)	(142.1)	(148.2)	(150.4)	(152.6)
Commission	(10.1)	(8.6)	(8.9)	(9.4)	(9.9)
Net insurance service expense	**(419.8)**	**(379.3)**	**(410.3)**	**(474.3)**	**(495.3)**
Insurance service result	**(1.7)**	**82.8**	**113.4**	**76.7**	**84.9**
Investment and other revenue	14.3	21.6	15.3	12.2	13.9
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**	**124.9**	**85.1**	**94.8**
Other income	2.7	0.8	(9.1)	(1.2)	(1.2)
Profit before taxation	**7.8**	**102.7**	**117.0**	**85.1**	**94.8**
Tax expense	(5.2)	(31.8)	(33.9)	(23.8)	(26.5)
Profit after taxation	**2.6**	**70.9**	**83.1**	**61.2**	**68.3**
NPAT (from discontinued ops)	(3.6)	3.4	-	-	-
NPAT (Reported)	**(1.0)**	**74.3**	**83.1**	**61.2**	**68.3**

Balance Sheet (NZ$m)	2023A	2024A	2025E	2026E	2027E
Working capital	(1.6)	(12.5)	(12.3)	(12.9)	(14.3)
Fixed assets	6.3	6.7	7.4	8.0	8.6
Intangibles	98.5	96.6	97.9	99.4	101.1
Right of use asset	23.2	20.0	16.8	13.5	10.3
Other assets	287.8	381.1	371.4	386.6	411.8
Total funds employed	**414.2**	**492.0**	**481.1**	**494.5**	**517.5**
Net debt/(cash)	(64.0)	(75.4)	(66.9)	(55.9)	(45.2)
Lease liability	32.6	28.9	25.6	22.4	19.2
Other liabilities	299.0	213.9	208.1	198.9	191.8
Shareholder's funds	146.6	324.7	314.3	329.2	351.8
Minority interests	-	-	-	-	-
Total funding sources	**414.2**	**492.0**	**481.1**	**494.5**	**517.5**

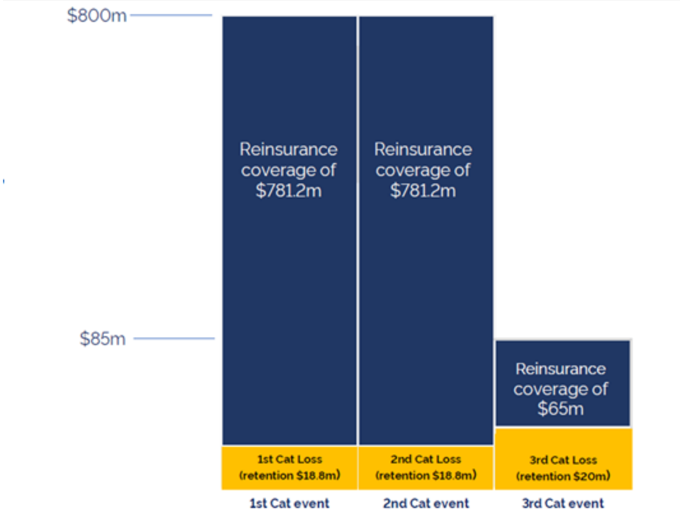
Key ratios	2023A	2024A	2025A	2026A	2027A
Total GWP growth %	15.2%	12.6%	5.0%	5.0%	5.0%
MER %	32.0%	31.4%	30.0%	29.0%	28.0%
Combined ratio %	100.4%	79.0%	78.3%	86.1%	85.4%
Solvency ratio (%)	139%	212%	180%	186%	188%

* 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

Balancing risk retention and cost optimisation at TWR

TWR’s FY25 reinsurance outcome reflected a deliberate balance between affordability and risk retention. The increased excess for the first two catastrophe events—up ~11% on FY24 to NZ$18.75m—suggests TWR will absorb slightly more loss per event to contain premium outlays and optimise cost efficiency. We understand the NZ$800m upper limit of its catastrophe programme accommodates a 1-in-1000-year earthquake scenario. In addition, TWR maintains complementary reinsurance treaties that protect against large single-property losses and speciality risks, including marine. We forecast TWR’s total reinsurance expenses at NZ$82.6m in FY25, or 13.3% of insurance revenue under the IFRS 17 framework. Of this, NZ$5.8m relates to cover outside the core dwelling reinsurance programme. This implies NZ$76.8m—or 11.8% of total income (GWP)—relates to the core programme, in line with TWR’s disclosed FY25 estimate (link) of 11.7% (down from 13.9% in FY24). Our reinsurance expense ratio, calculated on an IFRS 17 basis, reflects total insurance service expenses divided by insurance revenue. In contrast, TWR references its core reinsurance cost as a share of gross written premium—reflecting a narrower scope and more akin to the pre-IFRS 17 convention.

Figure 1. TWR's FY25 reinsurance programme

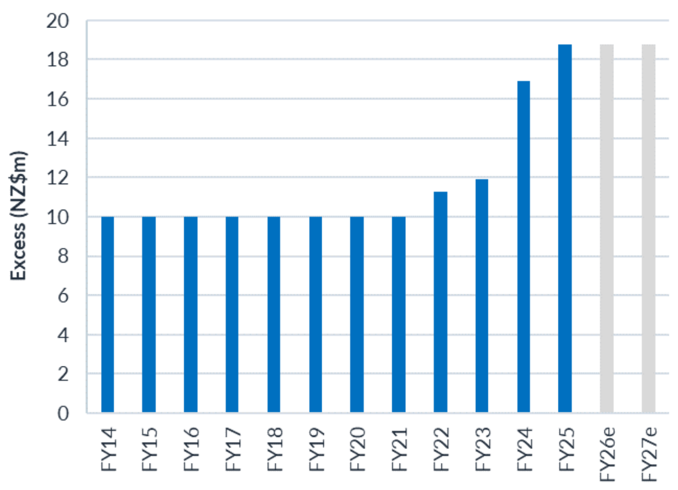


Source: Company

Figure 2. TWR—Reinsurance ratio (%)

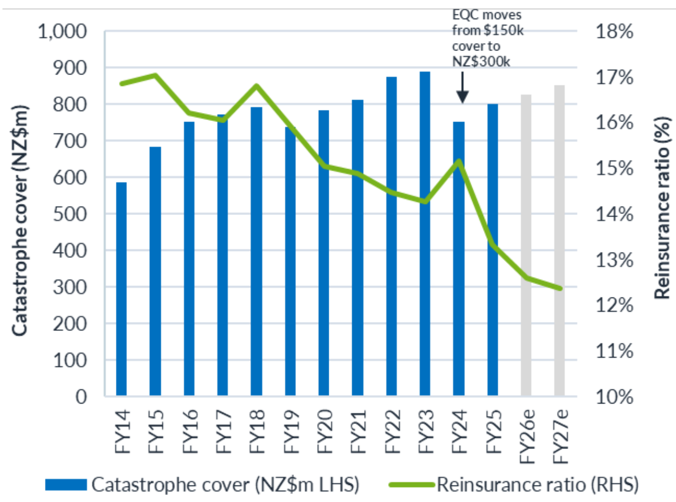
Source: Company, Forsyth Barr analysis

Figure 3. TWR—Event excess (NZ$m)



Source: Company, Forsyth Barr analysis

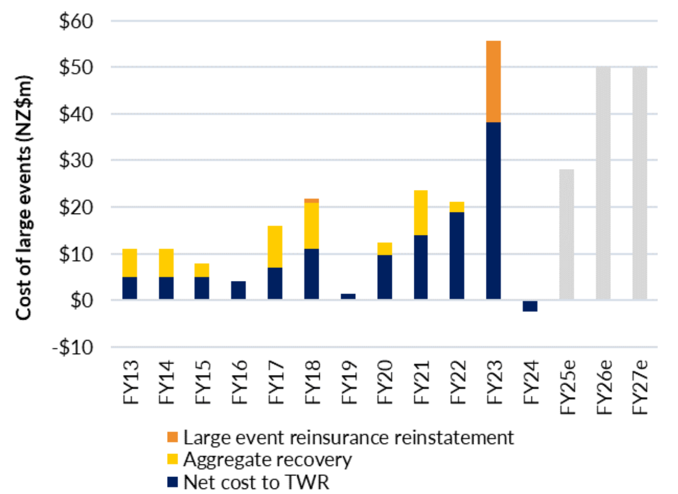
Figure 4. TWR—Catastrophe cover and reinsurance ratio



Source: Company, Forsyth Barr analysis

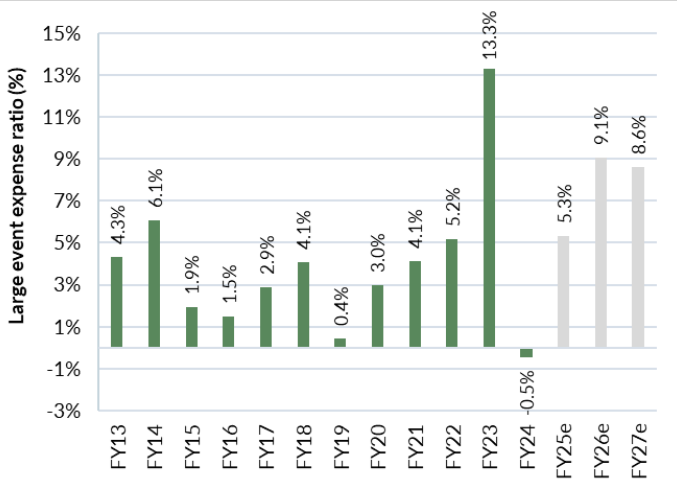
TWR’s large-event provisioning remains cautious at NZ$50m in FY25, based on a >90% confidence level. This covers claims above NZ$2m but below catastrophe thresholds and implies full utilisation only once every 10–14 years. This conservative assumption, however, suppresses forecast earnings (by including rare but plausible losses), thereby inflating forward PE ratios relative to likely underlying profitability. In our 23 April 2025 TWR note, we amended our outlook for TWR’s large-event provision to NZ$50m in FY26 and FY27, from NZ$55m and NZ$60m respectively, on reduced GWP growth expectations (see Figure 5), but still consider this a conservative level of provisioning relative to history, as seen in Figure 6.

Figure 5. TWR—Ultimate estimated cost of large events (excl. reinsurance premium costs)



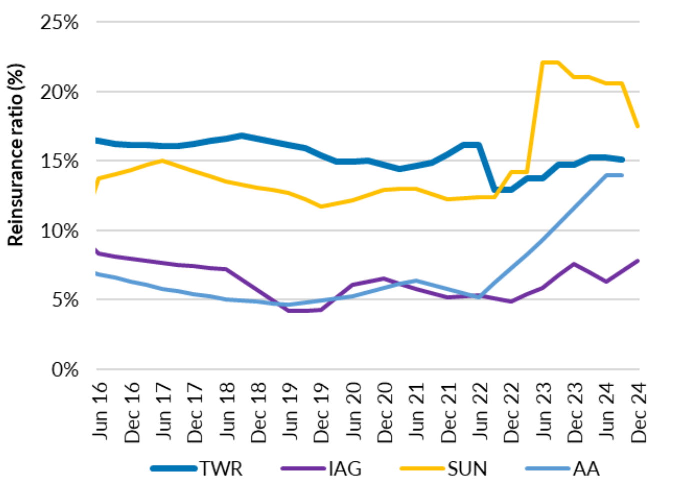
Source: Company, Forsyth Barr analysis

Figure 6. TWR's FY25 NZ$50m large-event expense ratio provision at ~9.6% makes estimates conservative (>90% CI)



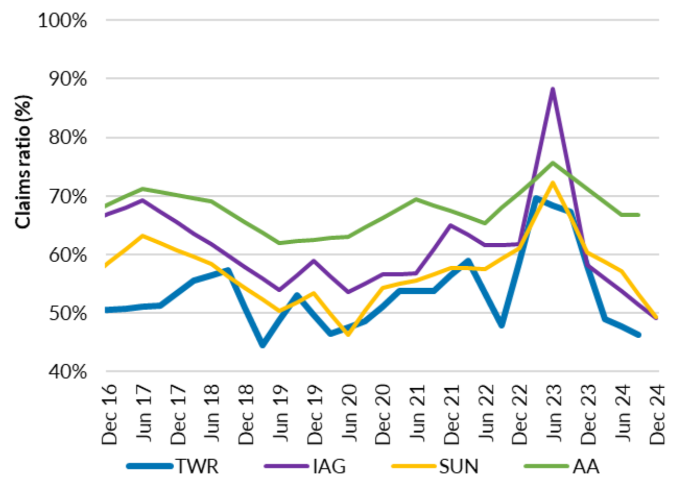
Source: Company, Forsyth Barr analysis

Figure 7. Reinsurance ratios across NZ general insurers



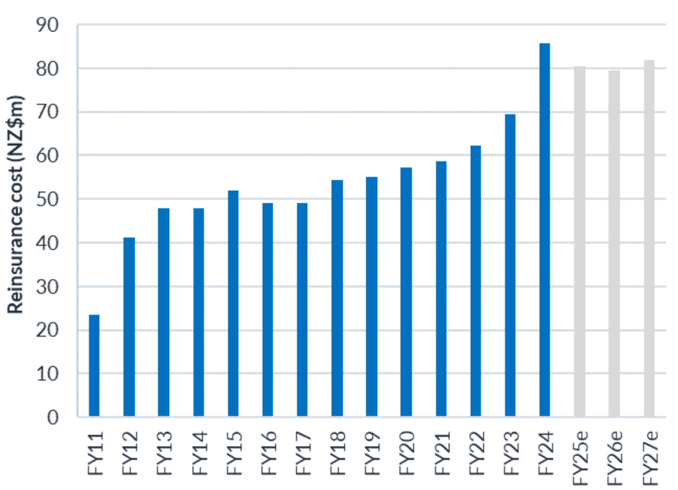
Source: Company, Forsyth Barr analysis. *NOTE: This uses IAG's NZ specific disclosure reinsurance expense data relative to GWP, not the 40.1% of GEP group-wide quota share quoted.

Figure 8. Claims ratios across New Zealand general insurers



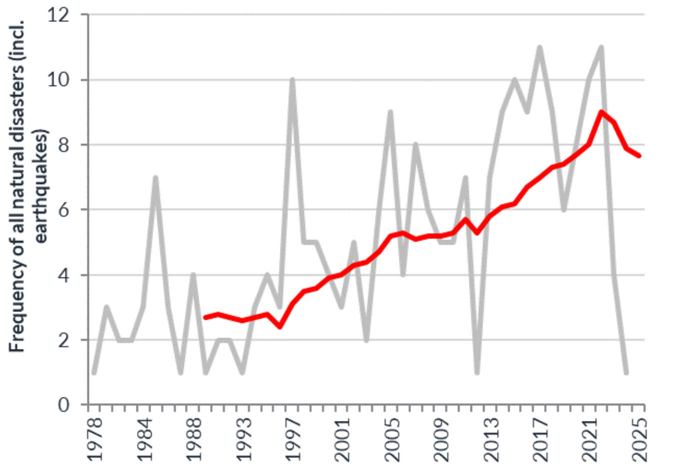
Source: Company, Forsyth Barr analysis

Figure 9. TWR—Reinsurance total costs are expected to come off recent highs due to: 1) TWR's risk-based pricing; 2) a softening reinsurance market; and 3) TWR's slower growth



Source: Company, Forsyth Barr analysis

Figure 10. The frequency of large events has grown consistently since the mid-1990s, but 2024 and 2025 have been abnormally low (whereas 2023 was exceptionally high)



Source: Company, Forsyth Barr analysis

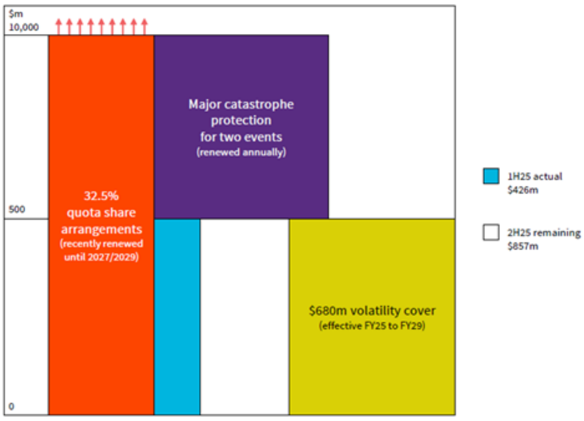
IAG and Suncorp reinsurance programmes

Insurance Australia Group (IAG) and Suncorp Group (SUN) have reinsurance programmes on a far larger scale than TWR. Their FY25 arrangements reflect greater absolute risk-bearing capacity and the ongoing complexity of global reinsurance markets.

- **IAG**'s 2025 catastrophe programme provides cover up to A$10b for each of the first two events, with a retention of A$500m per event. Notably, IAG opted not to renew its aggregate or multi-event covers, instead leveraging a new five-year 'natural perils volatility' agreement with Berkshire Hathaway and Canada Life. This provides ~A$1b of additional protection annually for sub-A$500m events, smoothing outcomes and enabling IAG to maintain its FY25 natural perils allowance at A$1,283m—unchanged from FY24. IAG utilises quota share arrangements (IAG cedes 32.5% of all premiums), which reduce retained exposures and premium income while helping to manage risk. This allowed IAG to achieve reinsurance economies due to scale and diversification. IAG's FY24 group-wide reinsurance expense was 40.1% of gross earned premium—driven by its whole-of-account quota share, which lowers catastrophe retention but complicates peer comparisons (whereas Figure 7 refers to GWP NZ-specific data).
- **SUN**'s FY25 programme balances scale with cost efficiency. It covers losses up to A$6.75b across Home, Motor, and Commercial property portfolios in Australia and New Zealand, with a first-event retention of A$350m (up from A$250m), and A$250m for the second. Layered drop-downs reduce subsequent event retentions—falling to A$150m by the third or fourth event in Australia. SUN also removed its aggregate loss cover, increasing exposure to secondary events. Its FY25 natural hazards allowance has lifted to A$1,565m. SUN, meanwhile, did not renew its Queensland home quota share in FY25, simplifying its stack and likely increasing disclosed ratios. In NZ, SUN expanded its buydown cover to fully reinsure losses between NZ$200m and the group's maximum event retention—compared to only 52% placement in FY24 between NZ$100m and A$1.36b maximum—responding to tighter reinsurance market conditions after 2023's extreme weather.

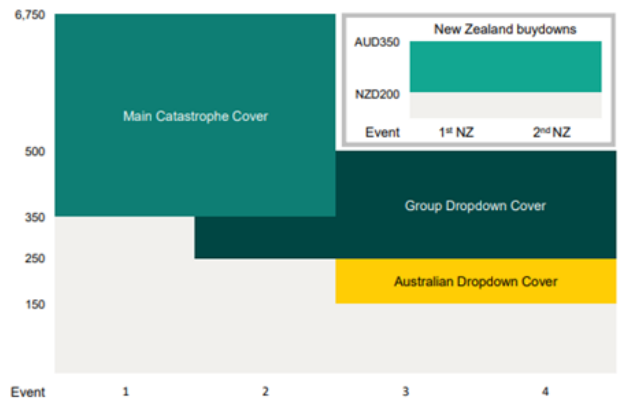
Both IAG and SUN have reiterated that capital buffers can absorb higher retentions and that cover remains sufficient to shield dividends from single-event shocks. SUN noted that: 'Alternative reinsurance structures for FY26 continue to be assessed against a framework seeking to optimise long-term shareholder value creation. An update will be provided in early July once the structure of the FY26 program has been finalised'.

Figure 11. IAG reinsurance stack



Source: Company, Forsyth Barr analysis

Figure 12. SUN reinsurance stack



Source: Company, Forsyth Barr analysis

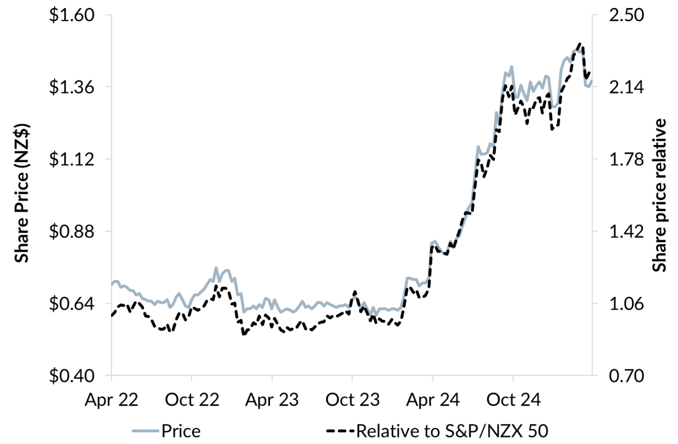
Australian Prudential Regulation Authority's (APRA) reinsurance reforms reshape capital strategies

APRA has signalled changes to its prudential capital framework for Australian general insurers' catastrophe reinsurance, with new rules expected by 2026. In the 2024–2025 consultations, APRA proposed all-perils catastrophe cover, eased reinstatement provisions, and scrapping capital requirements for potential reinstatement premiums. These reforms aim to bolster resilience and ensure protection against extreme events without excessive capital burden.

However, recent insurer actions reflect broader market pressures. SUN lifted its main catastrophe retention from A$250m to A$350m and did not renew aggregate covers, primarily to balance cost efficiency amid elevated prices. IAG adopted a multi-year reinsurance deal capping annual natural peril losses to stabilise earnings and reduce volatility. Both continue exploring alternative risk-transfer tools, such as catastrophe bonds, aligning with the shift towards comprehensive peril protection and tighter capital alignment expected by APRA. Mandating all-perils cover would ultimately lift costs for insurers and, thereby, customers.

Additional data

Figure 13. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 14. Substantial shareholders

Shareholder	Latest Holding
ACC	9.1%
Salt Funds Management	7.1%
Pacific International Insurance	5.8%

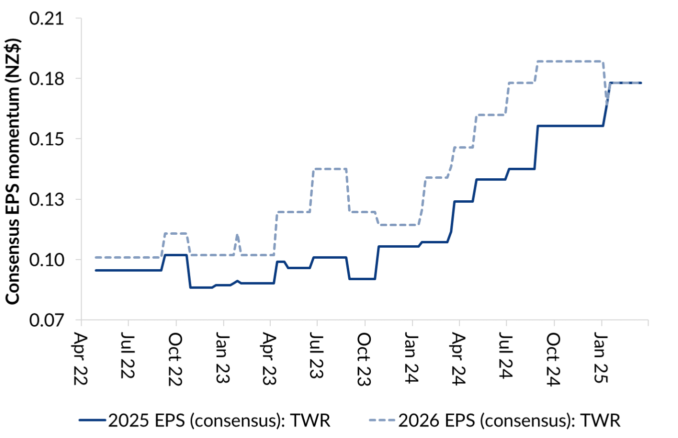
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 15. International valuation comparisons using consensus data (one and two year forward)

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
			(m)	1yr	2yr	1yr	2yr	1yr	2yr	1yr
Tower	**TWR NZ**	**NZ$1.35**	**NZ$462**	**7.1x**	**7.1x**	**n/a**	**n/a**	**4.2x**	**4.5x**	**9.2%**
Heartland Group Holdings	HGH NZ	NZ$0.77	NZ$724	9.0x	6.7x	9.1x	6.9x	9.4x	7.1x	6.0%
Insurance Australia Group	IAG AT	A$7.97	A$18,851	18.2x	17.7x	n/a	n/a	12.6x	12.2x	3.9%
Suncorp Group	SUN AT	A$19.61	A$21,237	16.4x	16.1x	13.7x	13.7x	12.7x	12.8x	4.6%
QBE	QBE AT	US$21.35	US$32,239	18.1x	17.0x	15.3x	15.0x	14.0x	13.2x	3.6%

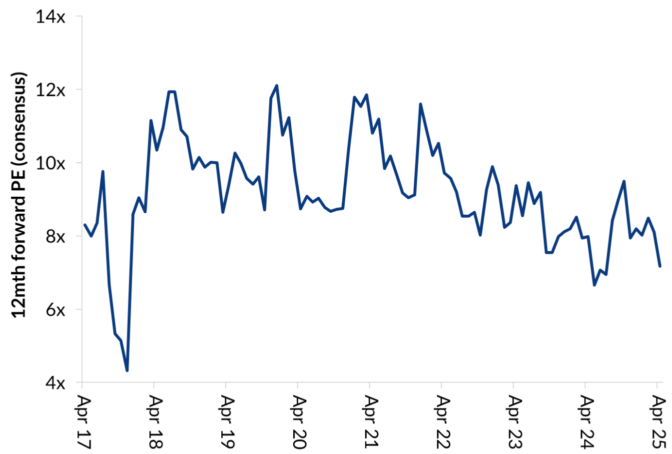
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 16. Consensus EPS momentum (NZ$)



Source: Bloomber, Forsyth Barr analysis

Figure 17. Consensus one year forward PE (x)



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

Disclosures

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