

Tower Limited

1H25—Low Claims, High Divs (Fully Imputed)

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Tower (TWR) delivered a very strong 1H25 result underpinned by another period of unusually benign weather, which flowed through to low business-as-usual claims. However, the result also revealed some pressure points. One-off costs relating to legacy earthquake claims and customer remediation re-emerged to mute reported profitability. Strong earnings have allowed TWR to declare a fully imputed 8cps interim dividend. Management retained its FY25 guidance range and reaffirmed key cost and earnings targets—and, just as importantly, reaffirmed its FY27 growth target of +10%–15% GWP growth (now well above our +5% growth estimate in that year). We make minor amendments to our earnings estimates, and our blended spot valuation lifts +1% to NZ\$1.71.

NZX code	TWR	Financials: Sep/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$1.47	Rev (NZ\$m)	566.2	604.2	630.5	662.0	PE	6.7	5.4	8.2	7.3
Spot Valuation	NZ\$1.71 (from 1.70)	NPAT* (NZ\$m)	83.5	94.0	61.8	68.5	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	22.0	27.4	18.0	20.0	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	342.6m	DPS (NZc)	9.5	16.0	13.5	15.0	Price / NTA	2.4	2.4	2.3	2.2
Market cap	NZ\$504m	Imputation (%)	0	100	100	100	Cash div yld (%)	6.5	10.9	9.2	10.2
Avg daily turnover	753.9k (NZ\$990k)	*Based on normalised profits					Gross div yld (%)	6.5	15.1	12.8	14.2

What's changed?

- **Earnings:** EPS down -7% in FY25 on higher CHCH earthquake and remediation costs, and +1%/+0% over FY26/FY27 respectively.
- **Spot valuation:** Our blended spot valuation lifts +1% to NZ\$1.71.

Favourable claims and stable costs lift 1H25 underlying earnings, but one-offs impact

Over 1H25, underlying GWP grew +4% on 1H24, highlighting market-wide pricing weakness, the sale of some Pacific Island GWP and a skew to lower-premium policies (albeit with lower risk). Underlying NPAT of NZ\$61.7m was +9% ahead of our expectations, supported by an unusually low 38.1% BAU claims ratio and minimal large-event costs (NZ\$3m of the NZ\$50m allowance was used). Reported NPAT was NZ\$49.7m, including NZ\$6.2m of post-tax earthquake-related costs and NZ\$5.8m of customer remediation charges. The management-expense ratio (MER) was solid at 30.4% (down from 31.3% in 1H24), and investment income softened to NZ\$10.0m from NZ\$11.6m in 2H24, reflecting OCR cuts and falls in short-dated bond yields. Customer numbers rose +1%, or +4k, in the half to 309,000, reversing a -16k policy-risk-based attrition in motor and housing over FY24. A NZ\$0.08 interim fully imputed dividend was declared, with capital remaining comfortably above regulatory minimums despite the 19 March 2025 NZ\$45m capital return. We understand TWR has prepaid tax in 1H25 to allow for the dividend to be fully imputed.

FY25 guidance unchanged, and medium-term targets retained

TWR has maintained its full-year underlying NPAT guidance of NZ\$70m–NZ\$80m, assuming full use of its NZ\$50m large-event allowance. Our analysis suggests that only 20%–30% of large-event costs normally occur in TWR's 2H25, suggesting management's provision remains conservative. We retain our estimate for NZ\$28m in large-event allowance despite +NZ\$4m extra being utilised in 2H25 already (making NZ\$7m to date in FY25). However, we now also include a further NZ\$5m cost estimate in our 2H25 numbers for additional remediation costs. Management reaffirmed mid-single-digit GWP growth expectations for FY25 and an MER of <31%. TWR's ordinary dividend policy is for a payout range of 'between 60%–80% of adjusted earnings', where prudent to do so, and we now expect TWR to announce 16cps DPS (fully imputed) for FY25 (up from a 14cps estimate prior and only 50% imputed). Further out, we raise our DPS profile by +14%/+13%/+11% over FY25/FY26/FY27 given the strong capital position.

Tower Limited (TWR)

Market data (NZ\$)

Priced as at 20 May 2025	1.47
52 week high / low	1.52 / 0.78
Market capitalisation (NZ\$m)	503.6

Key WACC assumptions

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

Spot valuation (NZ\$)

PE relative	2.02
P/Book relative	1.51
DCF	1.61

DCF valuation summary (NZ\$m)

Total firm value	644
(Net debt)/cash	(25)
Less: Capitalised operating leases	(45)
Value of equity	574

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)	(31.6)	(25.2)	(26.6)
Minority interests	-	-	-	-	-
Normalised NPAT	2.6	70.9	94.0	61.8	68.5
Abnormals/other	(3.6)	3.4	(17.0)	-	-
Reported NPAT	(1.0)	74.3	77.0	61.8	68.5
Normalised EPS (cps)	1.9	22.0	27.4	18.0	20.0
DPS (cps)	-	9.5	16.0	13.5	15.0

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	12.6	-34.3	10.9
Normalised EPS (%)	-79.7	>100	24.7	-34.3	10.9
Ordinary DPS (%)	-100.0	n/a	68.4	-15.6	11.1

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	91.6	75.0	84.6
Capital expenditure	(12.0)	(19.7)	(21.6)	(22.2)	(22.9)
(Acquisitions)/divestments	(5.9)	-	-	-	-
Other	(1.3)	(101.9)	21.8	(8.8)	(12.3)
Funding available/(required)	(9.2)	23.6	91.7	44.0	49.4
Dividends paid	(15.2)	(11.4)	(49.7)	(50.5)	(48.8)
Equity raised/(returned)	-	-	(45.0)	-	-
(Increase)/decrease in net debt	(24.4)	12.2	(3.0)	(6.5)	0.6

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	356.4	361.7	370.8
Total funds employed	414.2	492.0	466.1	469.6	476.4
Net debt/(cash)	(64.0)	(75.4)	(72.4)	(65.9)	(66.5)
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	304.9	314.2	331.9
Minority interests	-	-	-	-	-
Total funding sources	414.2	492.0	466.1	469.6	476.4

* 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

Valuation Ratios	2023A	2024A	2025E	2026E	2027E
EV/Sales (x)	0.4	0.3	0.2	0.2	0.2
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)	78.6	6.7	5.4	8.2	7.3
Price/NTA (x)	11.6	2.4	2.4	2.3	2.2
Free cash flow yield (%)	-1.8	23.9	13.2	9.8	11.6
Adj. free cash flow yield (%)	-1.8	23.9	13.2	9.8	11.6
Net dividend yield (%)	0.0	6.5	10.9	9.2	10.2
Gross dividend yield (%)	0.0	6.5	15.1	12.8	14.2

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	30.8	19.7	20.6
Return on funds employed (%)	3.8	23.2	27.8	17.9	19.0
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	100	100	100
Pay-out ratio (%)	0	43	58	75	75

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)	(226.5)	(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)	(148.7)	(150.4)	(152.6)
Commission	(10.1)	(8.6)	(9.4)	(9.4)	(9.9)
Net insurance service expense	(419.8)	(379.3)	(412.7)	(474.3)	(495.3)
Insurance service result	(1.7)	82.8	111.1	76.7	84.9
Investment and other revenue	14.3	21.6	18.4	13.3	13.3
Net insurance finance expense	(1.3)	(2.6)	(2.6)	(2.7)	(2.7)
Other income (costs)	0.2	(0.7)	(1.2)	(0.3)	(0.3)
Net result	11.5	119.4	125.6	87.0	95.2
Other income	2.7	0.8	(18.2)	(0.3)	(0.3)
Profit before taxation	7.8	102.7	108.6	87.0	95.2
Tax expense	(5.2)	(31.8)	(31.6)	(25.2)	(26.6)
Profit after taxation	2.6	70.9	77.0	61.8	68.5
NPAT (from discontinued ops)	(3.6)	3.4	-	-	-
NPAT (Reported)	(1.0)	74.3	77.0	61.8	68.5

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%	30.2%	29.0%	28.0%
Combined ratio %	100.4%	79.0%	78.8%	86.1%	85.4%
Solvency ratio (%)	139%	212%	170%	174%	174%

Earnings revisions

Figure 1. Earnings revisions

	FY25			FY26			FY27		
	Old	New	Change	Old	New	Change	Old	New	Change
Gross written premium	615.1	615.1	+0%	645.8	645.8	+0%	678.1	678.1	+0%
Insurance revenue	604.2	604.2	+0%	630.5	630.5	+0%	662.0	662.0	+0%
Reinsurance expense	(80.4)	(80.4)	+0%	(79.4)	(79.4)	+0%	(81.8)	(81.8)	+0%
Net insurance revenue	523.8	523.8	+0%	551.0	551.0	+0%	580.2	580.2	+0%
Net claims expense - BAU	(225.2)	(226.5)	+1%	(264.5)	(264.5)	+0%	(282.8)	(282.8)	+0%
Net claims expense - Large events	(28.0)	(28.0)	+0%	(50.0)	(50.0)	+0%	(50.0)	(50.0)	+0%
Management expenses	(148.2)	(148.7)	+0%	(150.4)	(150.4)	+0%	(152.6)	(152.6)	+0%
Net Commission Expense	(8.9)	(9.4)	+6%	(9.4)	(9.4)	+0%	(9.9)	(9.9)	+0%
Net insurance service expense	(410.3)	(412.7)	+1%	(474.3)	(474.3)	+0%	(495.3)	(495.3)	+0%
Insurance service result	113.4	111.1	(2%)	76.7	76.7	+0%	84.9	84.9	+0%
Net Investment Income	15.3	18.4	+20%	12.2	13.3	+9%	13.9	13.3	(4%)
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)	(0.3)	n/a	(1.2)	(0.3)	n/a
Profit before tax	124.9	125.6	+1%	85.1	87.0	+2%	94.8	95.2	+0%
Tax expense	(33.9)	(31.6)	(7%)	(23.8)	(25.2)	+6%	(26.5)	(26.5)	+0%
Profit after taxation from discontinued operation	-	-	n/a	-	-	n/a	-	-	n/a
Underlying Profit after tax	91.0	94.0	+3%	61.2	61.8	+1%	68.3	68.5	+0%
Canterbury impact	(4.3)	(6.2)	+44%	-	-	n/a	-	-	n/a
Other non-underlying items	(3.6)	(10.8)	+200%	-	-	n/a	-	-	n/a
Reported Profit after tax	83.1	77.0	(7%)	61.2	61.8	+1%	68.3	68.5	+0%
EPS	24.2	22.5	(7%)	17.9	18.0	+1%	19.9	20.0	+0%
DPS	14.0	16.0	+14%	12.0	13.5	+13%	13.5	15.0	+11%

Source: Forsyth Barr analysis

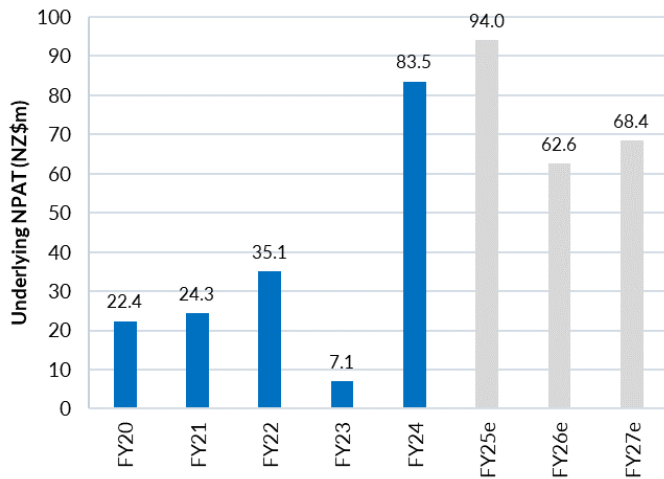
Figure 2. Result ratios—measured against management guidance

	FY25 Estimate	FY25 Mgt guidance	FY26 Estimate	FY26 Mgt guidance	FY27 Estimate	FY27 Mgt guidance
GWP growth (%)	+5.0%	Mid-single-digit	+5%		+5%	+10% to +15%
Large events allowance (NZ\$m)	\$28m	\$50m	\$50m		\$50m	
MER	30.2%	<31%	29.0%		28.0%	<28%
Combined operating ratio (%)	78.8%	82% to 84%	86.1%		85.4%	<86%
Underlying NPAT (NZ\$m)	\$94m	\$70m to \$80m	\$61.8m		\$68.5m	
ROE (%)	21.9%	13% - 17%	17.7%		18.8%	>18%

Source: Forsyth Barr analysis

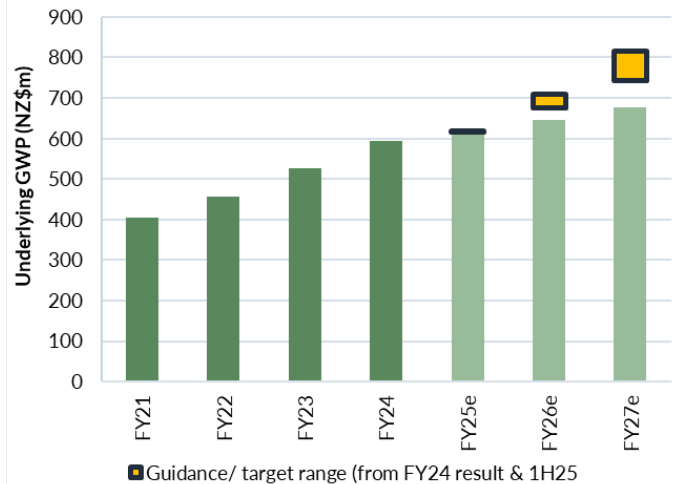
Key charts

Figure 3. TWR—Underlying NPAT (NZ\$m)



Source: Company, Forsyth Barr analysis

Figure 4. TWR—Underlying GWP



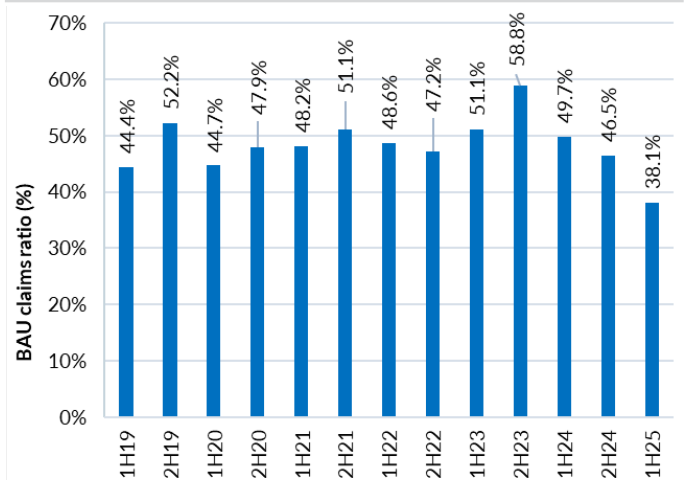
Source: Company, Forsyth Barr analysis

Figure 5. TWR—Group MER as a % of NEP (interim periods)



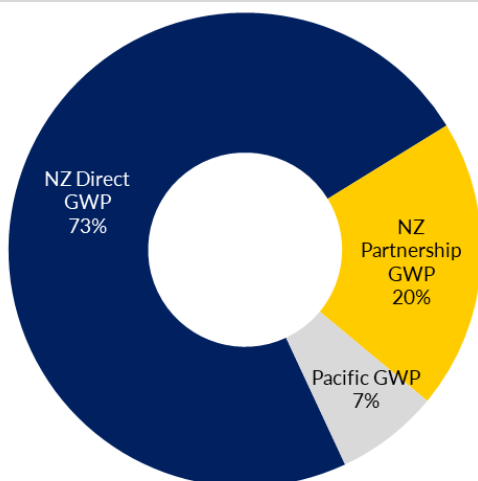
Source: Company, Forsyth Barr analysis

Figure 6. TWR—BAU claims ratio (interim periods)



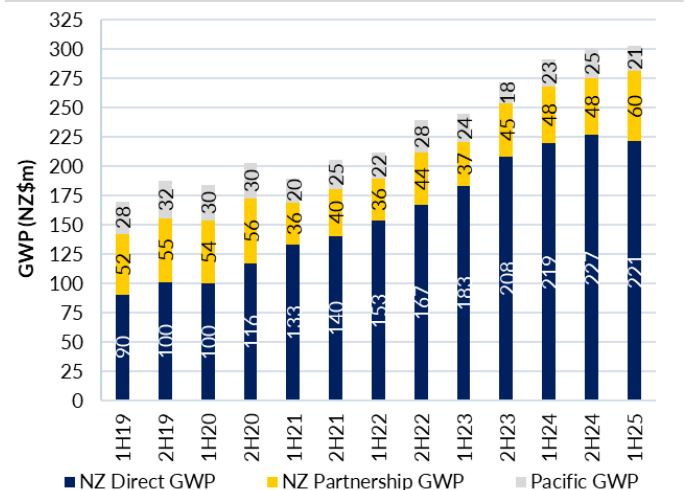
Source: Company, Forsyth Barr analysis

Figure 7. TWR — GWP segmental split (1H25)



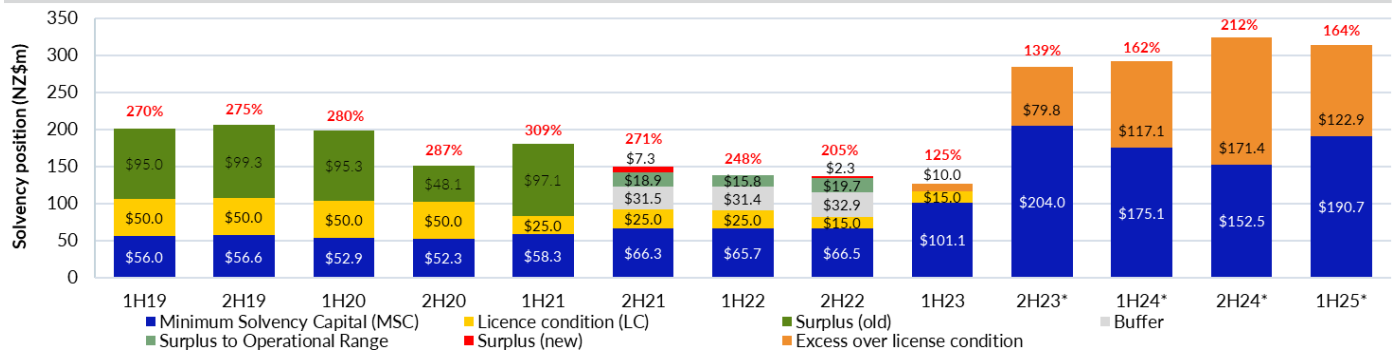
Source: Company, Forsyth Barr analysis

Figure 8. TWR—GWP by division (interim periods)



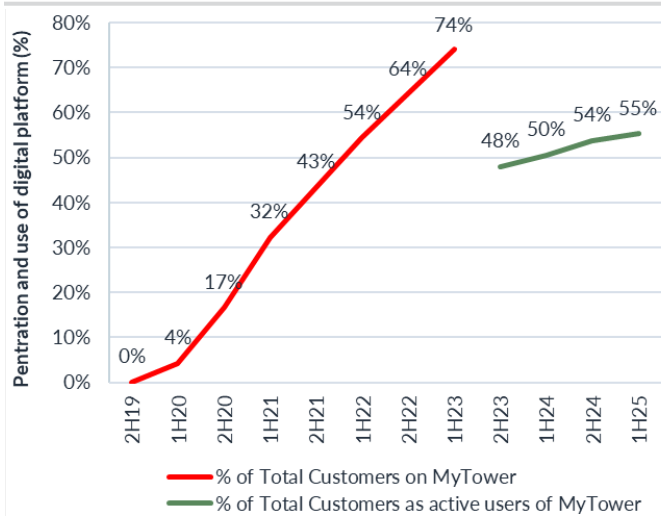
Source: Company, Forsyth Barr analysis

Figure 9. TWR—Solvency position over time (NZ\$m)



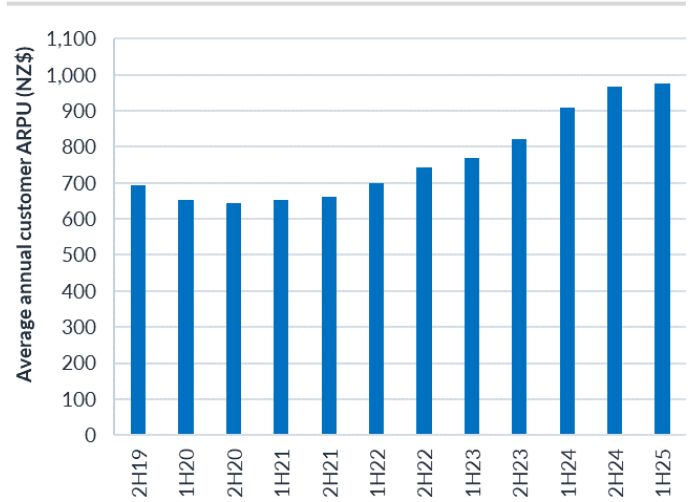
Source: Company, Forsyth Barr analysis

Figure 10. TWR—MyTower digital customers as % of total



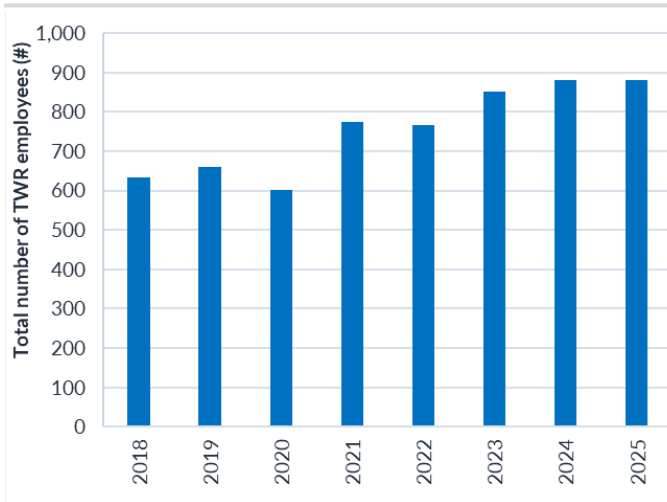
Source: Company, Forsyth Barr analysis

Figure 11. TWR—Annual ARPU



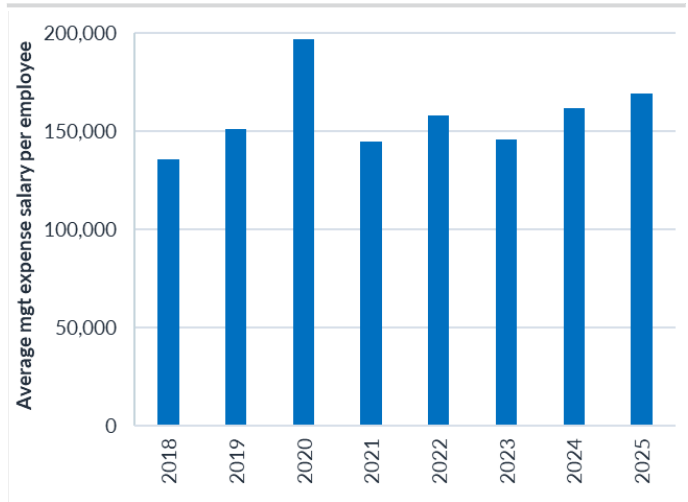
Source: Company, Forsyth Barr analysis

Figure 12. TWR—Total number of employees



Source: Company, Forsyth Barr analysis

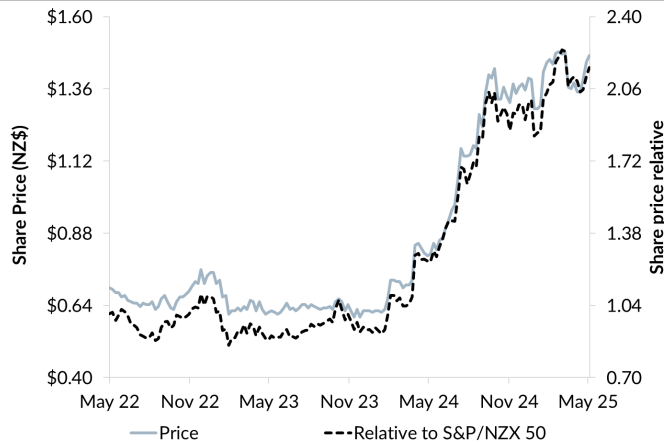
Figure 13. TWR—Average mgt expense salary per employee



Source: Company, Forsyth Barr analysis

Additional data

Figure 14. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 15. Substantial shareholders

Shareholder	Latest Holding
ACC	9.1%
Salt Funds Management	7.1%
Pacific International Insurance	5.8%
Forsyth Barr Investment Management	5.0%

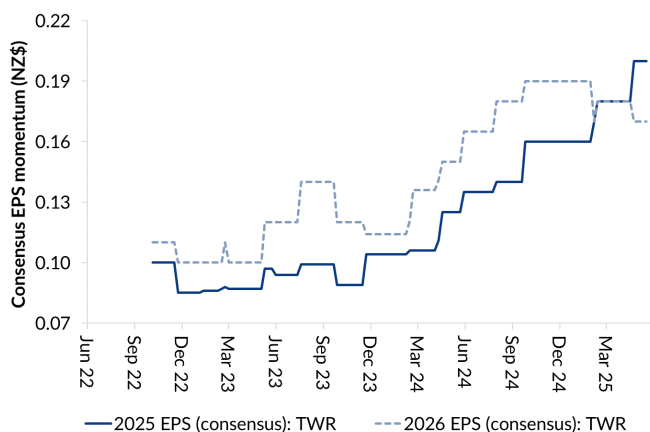
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 16. 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	
Tower	TWR NZ	NZ\$1.47	NZ\$504	7.7x	7.9x	n/a	n/a	4.7x	4.9x	8.4%
Heartland Group Holdings	HGH NZ	NZ\$0.83	NZ\$780	9.3x	7.1x	9.3x	7.1x	9.6x	7.3x	5.7%
Insurance Australia Group	IAG AT	A\$8.49	A\$20,081	19.3x	18.5x	n/a	n/a	13.2x	12.6x	3.7%
Suncorp Group	SUN AT	A\$20.64	A\$22,347	17.1x	16.7x	14.5x	14.3x	13.5x	13.4x	4.3%
QBE	QBE AT	US\$22.72	US\$34,308	18.9x	17.6x	15.5x	14.6x	14.4x	13.6x	3.4%

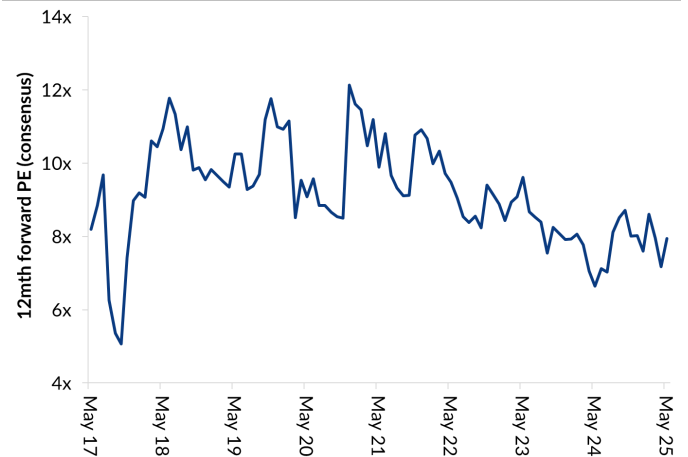
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 17. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 18. Consensus one year forward PE (x)



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

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