

# Tower Limited

## Transfer of Coverage

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We transfer Tower Limited (TWR) to full research coverage, as it is now a member of the NZX50 index. Our issuer-sponsored coverage ceases with immediate effect. Investors can no longer rely on our previous Forsyth Barr/MST Access earnings estimates or spot valuation.

## Tower Limited (TWR)

Priced as at 14 Jul 2025 (NZ\$) **1.59**

<b>12-month target price (NZ\$)*</b>	<b>2.00</b>
Expected share price return	25.8%
Net dividend yield	8.8%
Estimated 12-month return	34.5%

<b>Spot valuations (NZ\$)</b>	
PE relative	2.15
P/Book relative	1.65
DCF	1.64

### Carbon and ESG (C&ESG)\*\*

C&ESG rating	B
C&ESG score	61.0%
Sector average C&ESG score	61.0%
NZ average C&ESG score	58.8%

### Key WACC assumptions

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

<b>Profit and Loss Account (NZ\$m)</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Revenue (Insurance revenue)	487.6	566.2	604.2	630.5	662.0
<b>Normalised EBITDA</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Depreciation and amortisation	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>
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	-	-	-	-	-
<b>Normalised NPAT</b>	<b>2.6</b>	<b>70.9</b>	<b>94.0</b>	<b>61.8</b>	<b>68.5</b>
Abnormals/other	(3.6)	3.4	(17.0)	-	-
<b>Reported NPAT</b>	<b>(1.0)</b>	<b>74.3</b>	<b>77.0</b>	<b>61.8</b>	<b>68.5</b>
Normalised EPS (cps)	1.9	22.0	27.4	18.0	20.0
DPS (cps)	-	9.5	16.0	13.5	15.0

<b>Growth Rates</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
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

<b>Cash Flow (NZ\$m)</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>EBITDA</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Working capital change	n/a	n/a	n/a	n/a	n/a
Interest & tax paid	-	-	-	-	-
Other	-	-	-	-	-
<b>Operating cash flow</b>	<b>10.0</b>	<b>145.2</b>	<b>91.6</b>	<b>75.0</b>	<b>84.6</b>
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)
<b>Funding available/(required)</b>	<b>(9.2)</b>	<b>23.6</b>	<b>91.7</b>	<b>44.0</b>	<b>49.4</b>
Dividends paid	(15.2)	(11.4)	(49.7)	(50.5)	(48.8)
Equity raised/(returned)	-	-	(45.0)	-	-
<b>(Increase)/decrease in net debt</b>	<b>(24.4)</b>	<b>12.2</b>	<b>(3.0)</b>	<b>(6.5)</b>	<b>0.6</b>

<b>Balance Sheet (NZ\$m)</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
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
<b>Total funds employed</b>	<b>414.2</b>	<b>492.0</b>	<b>466.1</b>	<b>469.6</b>	<b>476.4</b>
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	-	-	-	-	-
<b>Total funding sources</b>	<b>414.2</b>	<b>492.0</b>	<b>466.1</b>	<b>469.6</b>	<b>476.4</b>

\* 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)

<b>Valuation Ratios</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
EV/Sales (x)	0.5	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)	85.0	7.2	5.8	8.8	7.9
Price/NTA (x)	12.6	2.6	2.6	2.5	2.4
Free cash flow yield (%)	-1.6	22.1	12.2	9.1	10.7
Adj. free cash flow yield (%)	-1.6	22.1	12.2	9.1	10.7
Net dividend yield (%)	0.0	6.0	10.1	8.5	9.4
Gross dividend yield (%)	0.0	6.0	14.0	11.8	13.1

<b>Key Ratios</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
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

<b>Reported performance</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Gross written premium	526.8	593.3	615.1	645.8	678.1
<b>Insurance revenue</b>	<b>487.6</b>	<b>566.2</b>	<b>604.2</b>	<b>630.5</b>	<b>662.0</b>
Reinsurance Premium	(69.5)	(85.8)	(80.4)	(79.4)	(81.8)
<b>Net insurance revenue</b>	<b>418.1</b>	<b>480.4</b>	<b>523.8</b>	<b>551.0</b>	<b>580.2</b>
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)
<b>Net insurance service expense</b>	<b>(419.8)</b>	<b>(379.3)</b>	<b>(412.7)</b>	<b>(474.3)</b>	<b>(495.3)</b>
<b>Insurance service result</b>	<b>(1.7)</b>	<b>82.8</b>	<b>111.1</b>	<b>76.7</b>	<b>84.9</b>
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)
<b>Net result</b>	<b>11.5</b>	<b>119.4</b>	<b>125.6</b>	<b>87.0</b>	<b>95.2</b>
Other income	2.7	0.8	(18.2)	(0.3)	(0.3)
<b>Profit before taxation</b>	<b>7.8</b>	<b>102.7</b>	<b>108.6</b>	<b>87.0</b>	<b>95.2</b>
Tax expense	(5.2)	(31.8)	(31.6)	(25.2)	(26.6)
<b>Profit after taxation</b>	<b>2.6</b>	<b>70.9</b>	<b>77.0</b>	<b>61.8</b>	<b>68.5</b>
NPAT (from discontinued ops)	(3.6)	3.4	-	-	-
<b>NPAT (Reported)</b>	<b>(1.0)</b>	<b>74.3</b>	<b>77.0</b>	<b>61.8</b>	<b>68.5</b>

<b>Key ratios</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026A</b>	<b>2027A</b>
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%

## Additional data

**Figure 1. Substantial shareholders**

Shareholder	Latest Holding
ACC	8.0%
Salt Funds Management	6.1%
Pacific International Insurance	5.8%

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

**Figure 2. 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
<b>Tower</b>	<b>TWR NZ</b>	<b>NZ\$1.59</b>	<b>NZ\$545</b>	<b>8.5x</b>	<b>8.4x</b>	<b>n/a</b>	<b>n/a</b>	<b>5.2x</b>	<b>5.1x</b>	<b>8.6%</b>
Heartland Group Holdings	HGH NZ	NZ\$0.80	NZ\$752	8.4x	6.6x	8.6x	n/a	8.8x	n/a	6.1%
Insurance Australia Group	IAG AT	A\$8.47	A\$20,034	19.5x	18.1x	n/a	n/a	13.2x	12.4x	3.7%
Suncorp Group	SUN AT	A\$20.46	A\$22,158	17.5x	17.0x	14.6x	14.1x	13.7x	13.2x	4.1%
QBE	QBE AT	US\$22.70	US\$34,277	18.5x	17.4x	15.3x	14.5x	14.2x	13.5x	3.3%

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

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