

Tower Limited

Sunny FY25 But Clouds Dampen Outlook

JAMES LINDSAY

 james.lindsay@forsythbarr.co.nz
 +64 9 368 0145

WILL TWISS

 will.twiss@forsythbarr.co.nz
 +64 9 368 0129

Tower (TWR) has lifted its FY25 underlying NPAT guidance by +15% at the midpoint to a new range of NZ\$70m to NZ\$80m, reflecting continued better-than-expected business-as-usual (BAU) claims performance. However, GWP growth guidance for FY25 has been downgraded from between +7% and +12% to 'mid-single digits' as price competition has intensified over the last several months. At its FY24 result, TWR was targeting +10% to +15% annualised GWP growth from FY25 to FY27. While we had anticipated some moderation in the insurance rate cycle and were at or below the bottom end of TWR's guidance range over the next few years, the magnitude and speed of the slowdown leads us to materially re-base our medium-term GWP growth trajectory. However, we continue to view the investment risk/reward as favourable with TWR trading at ~8x our revised FY26 EPS—which represents a more 'normalised' BAU claims period and our new modestly reduced large event allowance. Overall, our blended spot valuation falls -13% to NZ\$1.70.

NZX code	TWR	Financials: Sep/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$1.37	Rev (NZ\$m)	566.2	604.2	630.5	662.0	PE	6.2	5.2	7.7	6.9
Spot Valuation	NZ\$1.70 (from 1.95)	NPAT* (NZ\$m)	83.5	91.0	61.2	68.3	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	22.0	26.6	17.9	19.9	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	342.6m	DPS (NZc)	9.5	14.0	12.0	13.5	Price / NTA	2.3	2.2	2.0	1.9
Market cap	NZ\$469m	Imputation (%)	0	50	100	100	Cash div yld (%)	6.9	10.2	8.8	9.9
Avg daily turnover	741.8k (NZ\$966k)	*Based on normalised profits					Gross div yld (%)	6.9	12.2	12.2	13.7

What's changed?

- **Earnings:** Underlying NPAT rises +6% in FY25 but falls -6% and -15% in FY26 and FY27, respectively.
- **Spot valuation:** Falls -13% to NZ\$1.70 on medium to long-term earnings de-leverage from lower GWP growth.

Moderate BAU claims drive another FY25 upgrade

TWR's new FY25 underlying NPAT guidance is +6% ahead of our prior estimate at the midpoint, stripping out our lower large events allowance. Once again, the driver of the improved outlook has been lower-than-expected BAU claims, reflecting favourable weather conditions, moderating inflation, and the impact of TWR's enhanced risk-selection. We now forecast a BAU claims ratio of 43% for FY25, which is considerably below the long-term trend of c. 50%. TWR's guidance continues to assume full utilisation of its NZ\$50m large events allowance. Only NZ\$3m of large events costs have been recognised in FY25 to date, although the Easter storms may cross the threshold to be considered a large event (>NZ\$2m) with TWR receiving more than 250 claims thus far.

GWP (and MER) guidance downgraded

GWP growth guidance for FY25 has now been downgraded twice in the first six months of FY25, from an initial range of +10% to +15% to 'mid-single digits'. The tempered outlook reflects: (1) a higher proportion of lower risk new house and motor policies with smaller premiums, and (2) increased price competition. While some of the impact of lower premiums will be offset by reduced costs, achieving operating leverage will now be more challenging. As evidence of this, TWR now expects the management expense ratio (MER) in FY25 to be <31% versus prior guidance of <29%, primarily as a result of reduced premiums.

One-offs take further shine off

TWR noted further non-underlying costs will impact its reported FY25 profit, including (1) ongoing customer remediation costs, and (2) an increase in the Canterbury earthquake provision due to new over-cap claims received from the Natural Hazards Commission (NHC). TWR did not quantify the likely size of these charges, but we incorporate estimates in our forecasts.

Tower Limited (TWR)

Market data (NZ\$)						Spot valuation (NZ\$)						
Priced as at 22 Apr 2025						1.37	PE relative					1.98
52 week high / low						1.52 / 0.78	P/Book relative					1.48
Market capitalisation (NZ\$m)						469.3	DCF					1.64
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						5.00%	Total firm value					649
Equity beta						1.18	(Net debt)/cash					(21)
WACC						10.9%	Less: Capitalised operating leases					(45)
Terminal growth						1.8%	Value of equity					583
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	604.2	630.5	662.0	EV/Sales (x)	0.3	0.2	0.1	0.1	0.1	
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)	73.2	6.2	5.2	7.7	6.9	
Net interest	n/a	n/a	n/a	n/a	n/a	Price/NTA (x)	10.8	2.3	2.2	2.0	1.9	
Associate income	0	0	0	0	0	Free cash flow yield (%)	-1.9	25.7	15.5	10.4	12.4	
Tax	(5.2)	(31.8)	(33.9)	(23.8)	(26.5)	Adj. free cash flow yield (%)	-1.9	25.7	15.5	10.4	12.4	
Minority interests	0	0	0	0	0	Net dividend yield (%)	0.0	6.9	10.2	8.8	9.9	
Normalised NPAT	2.6	70.9	91.0	61.2	68.3	Gross dividend yield (%)	0.0	6.9	12.2	12.2	13.7	
Abnormals/other	(3.6)	3.4	(7.9)	-	-							
Reported NPAT	(1.0)	74.3	83.1	61.2	68.3	Key Ratios						
Normalised EPS (cps)	1.9	22.0	26.6	17.9	19.9	Return on assets (%)	n/a	n/a	n/a	n/a	n/a	
DPS (cps)	-	9.5	14.0	12.0	13.5	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	
Growth Rates						EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a	
	2023A	2024A	2025E	2026E	2027E	EBIT margin (%)	n/a	n/a	n/a	n/a	n/a	
Revenue (%)	13.2	16.1	6.7	4.3	5.0	Capex to sales (%)	2.5	3.5	3.6	3.5	3.5	
EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
EBIT (%)	n/a	n/a	n/a	n/a	n/a	Imputation (%)	0	0	50	100	100	
Normalised NPAT (%)	-79.7	>100	9.0	-32.7	11.5	Pay-out ratio (%)	0	43	53	67	68	
Normalised EPS (%)	-79.7	>100	20.7	-32.7	11.5							
Ordinary DPS (%)	-100.0	n/a	47.4	-14.3	12.5	Reported performance						
							2023A	2024A	2025E	2026E	2027E	
Cash Flow (NZ\$m)						Gross written premium	526.8	593.3	615.1	645.8	678.1	
	2023A	2024A	2025E	2026E	2027E	Insurance revenue	487.6	566.2	604.2	630.5	662.0	
EBITDA	n/a	n/a	n/a	n/a	n/a	Reinsurance Premium	(69.5)	(85.8)	(80.4)	(79.4)	(81.8)	
Working capital change	n/a	n/a	n/a	n/a	n/a	Net insurance revenue	418.1	480.4	523.8	551.0	580.2	
Interest & tax paid	0	0	0	0	0	BAU claims expense	(230.2)	(230.9)	(225.2)	(264.5)	(282.8)	
Other	0	0	0	0	0	Large events claim expense	(38.2)	2.3	(28.0)	(50.0)	(50.0)	
Operating cash flow	10.0	145.2	97.6	74.5	84.3	Reinsurance reinstatement	(17.4)	-	-	-	-	
Capital expenditure	(12.0)	(19.7)	(21.6)	(22.2)	(22.9)	Management expenses	(123.9)	(142.1)	(148.2)	(150.4)	(152.6)	
(Acquisitions)/divestments	(5.9)	-	-	-	-	Commission	(10.1)	(8.6)	(8.9)	(9.4)	(9.9)	
Other	(1.3)	(101.9)	14.3	(7.5)	(17.1)	Net insurance service expense	(419.8)	(379.3)	(410.3)	(474.3)	(495.3)	
Funding available/(required)	(9.2)	23.6	90.3	44.8	44.4	Insurance service result	(1.7)	82.8	113.4	76.7	84.9	
Dividends paid	(15.2)	(11.4)	(46.2)	(44.5)	(43.7)	Investment and other revenue	14.3	21.6	15.3	12.2	13.9	
Equity raised/(returned)	-	-	(45.0)	-	-	Net insurance finance expense	(1.3)	(2.6)	(2.6)	(2.7)	(2.7)	
(Increase)/decrease in net debt	(24.4)	12.2	(0.9)	0.2	0.7	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	
Balance Sheet (NZ\$m)						Other income	2.7	0.8	(9.1)	(1.2)	(1.2)	
	2023A	2024A	2025E	2026E	2027E	Profit before taxation	7.8	102.7	117.0	85.1	94.8	
Working capital	(1.6)	(12.5)	(12.3)	(12.9)	(14.3)	Tax expense	(5.2)	(31.8)	(33.9)	(23.8)	(26.5)	
Fixed assets	6.3	6.7	7.4	8.0	8.6	Profit after taxation	2.6	70.9	83.1	61.2	68.3	
Intangibles	98.5	96.6	97.9	99.4	101.1	NPAT (from discontinued ops)	(3.6)	3.4	-	-	-	
Right of use asset	23.2	20.0	16.8	13.5	10.3	NPAT (Reported)	(1.0)	74.3	83.1	61.2	68.3	
Other assets	287.8	381.1	363.8	367.8	381.6	Key ratios						
Total funds employed	414.2	492.0	473.6	475.8	487.3		2023A	2024A	2025A	2026A	2027A	
Net debt/(cash)	(64.0)	(75.4)	(74.5)	(74.7)	(75.4)	Total GWP growth %	15.2%	12.6%	5.0%	5.0%	5.0%	
Lease liability	32.6	28.9	25.6	22.4	19.2	MER %	32.0%	31.4%	30.0%	29.0%	28.0%	
Other liabilities	299.0	213.9	208.1	198.9	191.8	Combined ratio %	100.4%	79.0%	78.3%	86.1%	85.4%	
Shareholder's funds	146.6	324.7	314.3	329.2	351.8	Solvency ratio (%)	139%	212%	180%	186%	188%	
Minority interests	-	-	-	-	-							
Total funding sources	414.2	492.0	473.6	475.8	487.3							

* 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

Earnings revisions

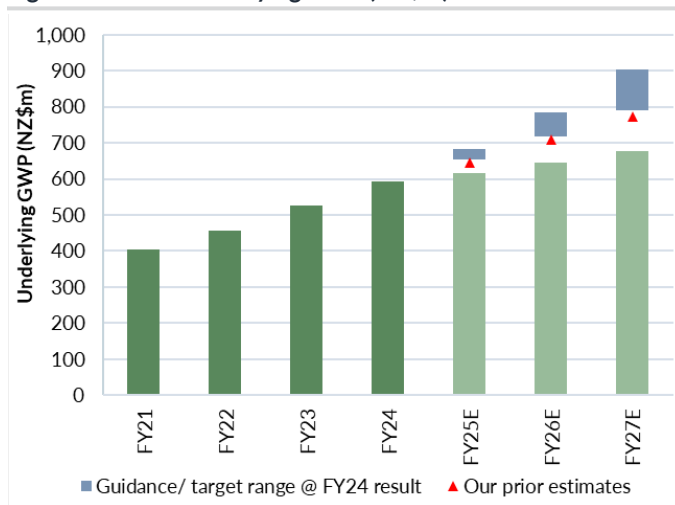
We make material cuts to our GWP growth expectations. In FY25, this is more than offset by lower BAU claims at the underlying NPAT line. However, reported NPAT falls -3% as we incorporate our preliminary estimate of costs relating to the Christchurch earthquakes and raised customer remediation costs. In total these equate to NZ\$7.9m after tax within our FY25 forecasts. In FY26 and FY27, lower GWP is partially offset by (1) lower reinsurance costs due to reduced total exposure and a softening reinsurance cycle, (2) a lowered large events allowance due to reduced exposure and limited events over the last 18 to 24-months, and (3) lower BAU claims costs, as we now expect the BAU claims ratio to normalise back towards ~50% over several years. However, operating de-leverage leads to underlying NPAT falling -6% and -15% in FY26 and FY27 respectively.

Figure 1. Earnings revisions (NZ\$m)

	FY25			FY26			FY27		
	Old	New	Change	Old	New	Change	Old	New	Change
Gross written premium	644.4	615.1	(5%)	708.8	645.8	(9%)	772.6	678.1	(12%)
Insurance revenue	618.8	604.2	(2%)	676.6	630.5	(7%)	740.7	662.0	(11%)
Reinsurance expense	(82.6)	(80.4)	(3%)	(84.7)	(79.4)	(6%)	(89.2)	(81.8)	(8%)
Net insurance revenue	536.3	523.8	(2%)	591.9	551.0	(7%)	651.5	580.2	(11%)
Net claims expense - BAU	(244.0)	(225.2)	(8%)	(293.0)	(264.5)	(10%)	(322.5)	(282.8)	(12%)
Net claims expense - Large events	(28.0)	(28.0)	+0%	(55.0)	(50.0)	(9%)	(60.0)	(50.0)	(17%)
Management expenses	(146.4)	(148.2)	+1%	(153.3)	(150.4)	(2%)	(157.7)	(152.6)	(3%)
Net Commission Expense	(9.1)	(8.9)	(2%)	(10.1)	(9.4)	(7%)	(11.1)	(9.9)	(11%)
Net insurance service expense	(427.5)	(410.3)	(4%)	(511.4)	(474.3)	(7%)	(551.2)	(495.3)	(10%)
Insurance service result	108.7	113.4	+4%	80.6	76.7	(5%)	100.3	84.9	(15%)
Net Investment Income	16.1	15.3	(5%)	13.6	12.2	(10%)	15.1	13.9	(8%)
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	121.0	124.9	+3%	90.2	85.1	(6%)	111.4	94.8	(15%)
Tax expense	(35.1)	(33.9)	(3%)	(25.3)	(23.8)	(6%)	(31.2)	(26.5)	(15%)
Underlying Profit after tax	85.9	91.0	+6%	65.0	61.2	(6%)	80.2	68.3	(15%)
Canterbury impact	-	(4.3)	n/a	-	-	n/a	-	-	n/a
Other non-underlying items	-	(3.6)	n/a	-	-	n/a	-	-	n/a
Reported Profit after tax	85.9	83.1	(3%)	65.0	61.2	(6%)	80.2	68.3	(15%)
EPS	25.1	24.2	(3%)	19.0	17.9	(6%)	23.4	19.9	(15%)
DPS	13.0	14.0	+8%	13.0	12.0	(8%)	16.0	13.5	(16%)

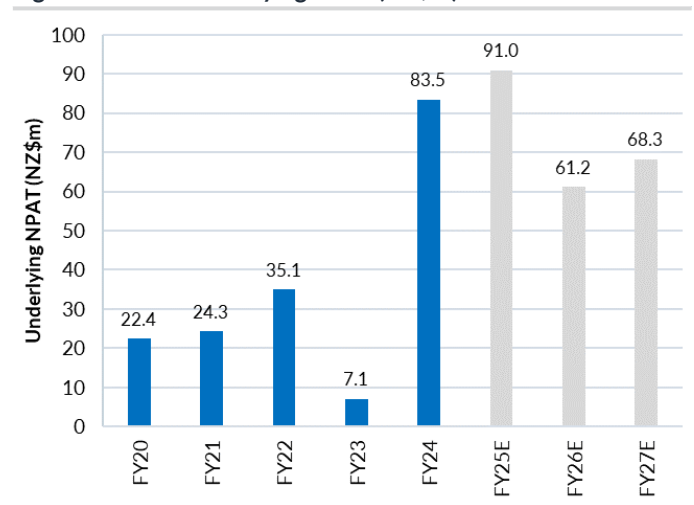
Source: Forsyth Barr analysis

Figure 2. TWR - Underlying GWP (NZ\$m)



Source: Company, Forsyth Barr analysis

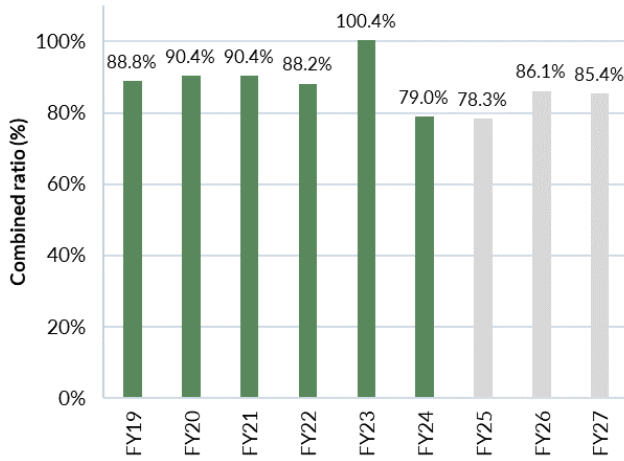
Figure 3. TWR - Underlying NPAT (NZ\$m)



Source: Company, Forsyth Barr analysis

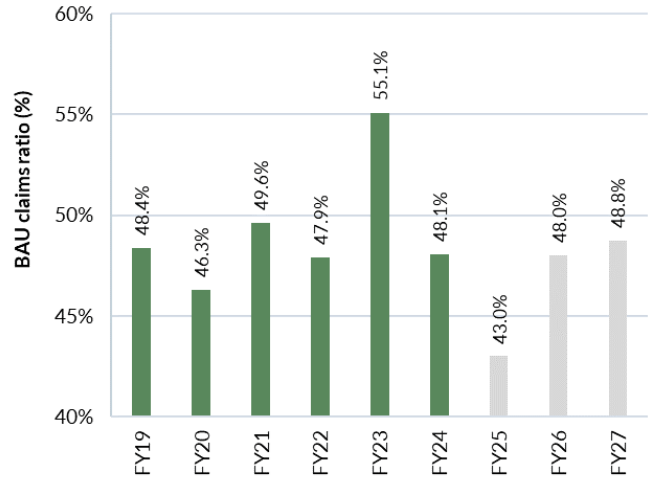
Key charts

Figure 4. TWR – Combined ratio



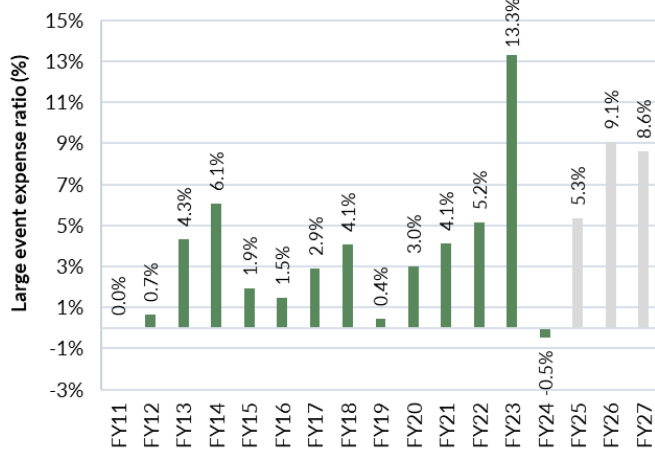
Source: Company, Forsyth Barr analysis

Figure 5. TWR – BAU claims ratio (excluding large events)



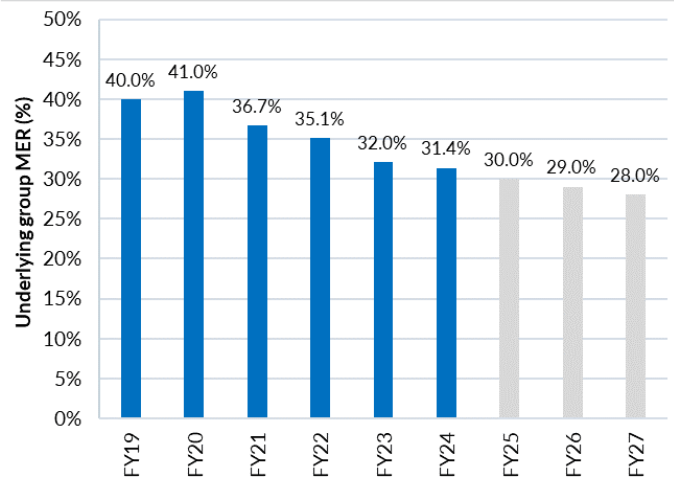
Source: Company, Forsyth Barr analysis

Figure 6. TWR – Large event expense ratio (%)



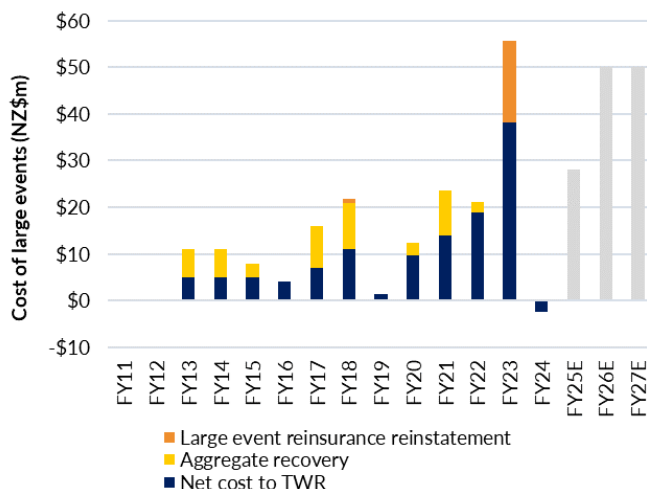
Source: Company, Forsyth Barr analysis

Figure 7. TWR – Underlying group MER (%)



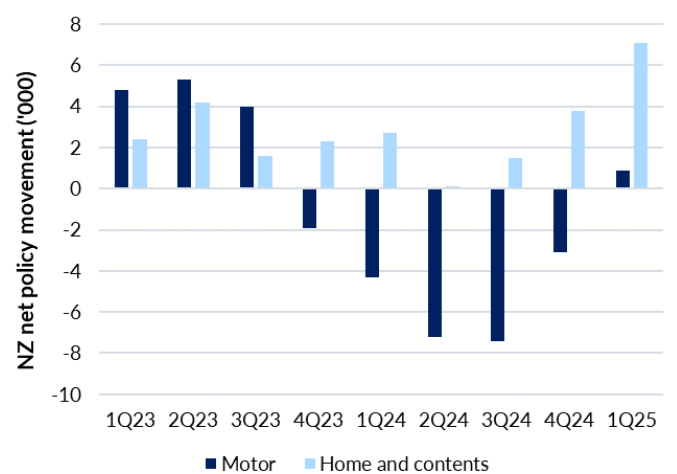
Source: Company, Forsyth Barr analysis

Figure 8. TWR – Ultimate estimated cost of large events (excluding reinsurance premium costs)



Source: Company, Forsyth Barr analysis

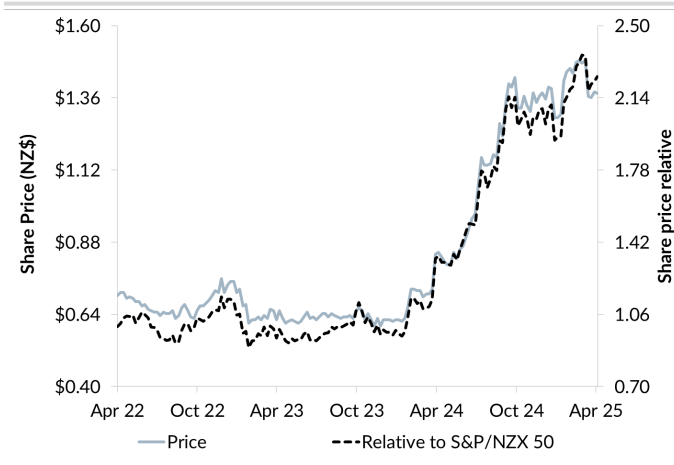
Figure 9. Net movement in NZ risks by quarter across TWR's segments



Source: Company, Forsyth Barr analysis

Additional data

Figure 10. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 11. Substantial shareholders

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

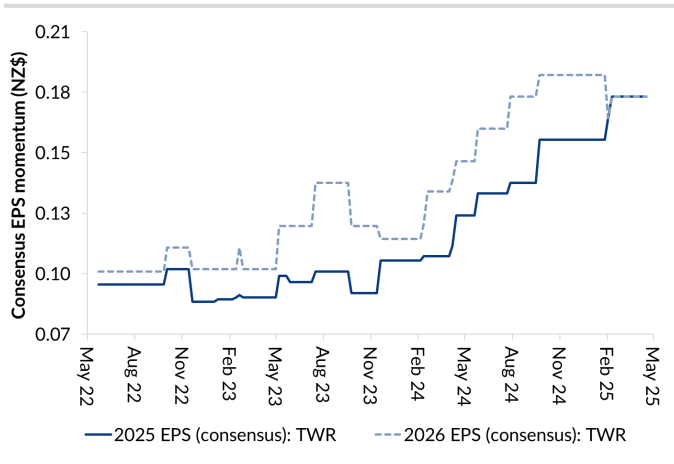
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 12. 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\$1.37	NZ\$469	7.2x	6.9x	n/a	n/a	4.3x	4.2x	9.3%
Heartland Group Holdings	HGH NZ	NZ\$0.76	NZ\$714	8.8x	6.6x	9.1x	6.8x	9.3x	7.0x	6.1%
Insurance Australia Group	IAG AT	A\$7.96	A\$18,828	18.2x	17.6x	n/a	n/a	12.6x	12.2x	3.9%
Suncorp Group	SUN AT	A\$19.35	A\$20,955	16.2x	15.9x	13.6x	13.5x	12.5x	12.6x	4.7%
QBE	QBE AT	US\$21.20	US\$32,005	17.9x	16.8x	15.2x	14.9x	13.9x	13.1x	3.6%

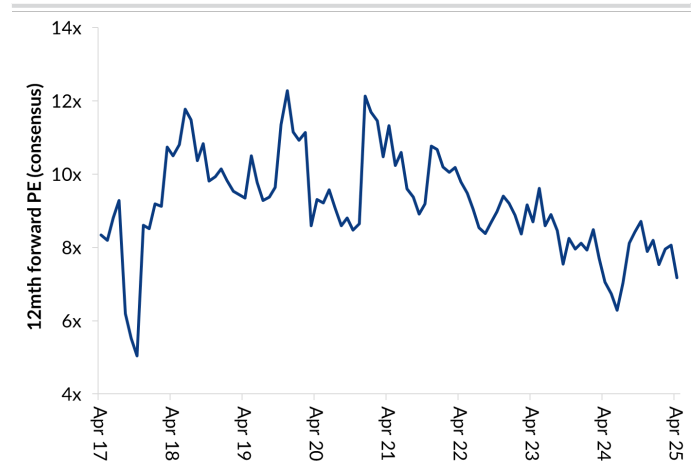
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 13. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 14. Consensus one year forward PE (x)



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

Disclosures

Important information about this publication

Forsyth Barr Limited (“**Forsyth Barr**”) holds a licence issued by the Financial Markets Authority to provide financial advice services. In making this publication available, Forsyth Barr (and not any named analyst personally) is giving any financial advice it may contain. Some information about us and our financial advice services is publicly available. You can find that on our website at www.forsythbarr.co.nz/choosing-a-financial-advice-service Please note the limitations in relation to distribution generally, and in relation to recipients in Australia in particular, as set out under those headings below.

This publication has been commissioned by Tower Limited (“**Researched Entity**”) and prepared and issued by Forsyth Barr in consideration of a fee payable by the Researched Entity. Forsyth Barr follows a research process (including through the Analyst certification below) designed to ensure that the recommendations and opinions in our research publications are not influenced by this arrangement and the other interests of Forsyth Barr and related parties disclosed below. However, entities may not be willing to continue to pay for research coverage that includes unfavourable views.

Any recommendations or opinions in this publication do not take into account your personal financial situation or investment goals, and may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser.

Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer’s securities or investments.

This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. If there are material inaccuracies or omissions in the information it is likely that our recommendations or opinions would be different. Any analyses or valuations will also typically be based on numerous assumptions (such as the key WACC assumptions); different assumptions may yield materially different results.

Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you.

In giving financial advice, Forsyth Barr is bound by duties under the Financial Markets Conduct Act 2013 (“**FMCA**”) to:

- exercise care, diligence, and skill,
- give priority to the client’s interests, and
- when dealing with retail clients, comply with the Code of Professional Conduct for Financial Advice Services, which includes standards relating to competence, knowledge, skill, ethical behaviour, conduct, and client care.

There are likely to be fees, expenses, or other amounts payable in relation to acting on any recommendations or opinions in this publication. If you are Forsyth Barr client we refer you to the Advice Information Statement for your account for more information.

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication (“**Analysts**”) are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced; and (ii) no part of the Analyst’s compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this publication.

Analyst holdings: The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

Other disclosures: Forsyth Barr and its related companies (and their respective directors, officers, agents and employees) (“**Forsyth Barr Group**”) may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) corporate advisory or other services to, the issuer of those financial products (and may receive fees for so acting). Members of the Forsyth Barr Group may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Corporate advisory engagements: Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide corporate advisory services to the Researched Entity.

Complaints: Information about Forsyth Barr’s complaints process and our dispute resolution process is available on our website – www.forsythbarr.co.nz.

Disclaimer: Where the FMCA applies, liability for the FMCA duties referred to above cannot by law be excluded. However to the maximum extent permitted by law, Forsyth Barr otherwise excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. The information contained within this publication is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy.

Distribution: This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Recipients in Australia: This publication is only available to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001 (Cth) (“**wholesale clients**”). In no circumstances may this publication be made available to a “retail client” within the meaning of section 761G. Further, this publication is only available on a limited basis to authorised recipients in Australia. Forsyth Barr is a New Zealand company operating in New Zealand that is regulated by the Financial Markets Authority of New Zealand and NZX. This publication has been prepared in New Zealand in accordance with applicable New Zealand laws, which may differ from Australian laws. Forsyth Barr does not hold an Australian financial services licence. This publication may refer to a securities offer or proposed offer which is not available to investors in Australia, or is only available on a limited basis, such as to professional investors or others who do not require prospectus disclosure under Part 6D.2 of the Corporations Act 2001 (Cth) and are wholesale clients.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.