

# Tower 1H21 Result.

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Tower (TWR) reported a disappointing 1H21 result and we have again downgraded our estimates. We remain encouraged by the strong premium growth from the Tower Direct business and continued efficiency improvements, but now expect some permanent degradation to long-term claims ratios. While investors will no doubt welcome the long awaited return of dividends, TWR has taken a step backwards in its journey of restoring investor confidence.

| NZX Code           | TWR               | Financials: Sep/             | 20A   | 21E   | 22E  | 23E  | Valuation (x)     | 20A  | 21E  | 22E  | 23E  |
|--------------------|-------------------|------------------------------|-------|-------|------|------|-------------------|------|------|------|------|
| Share price        | NZ\$0.77          | NPAT* (NZ\$m)                | 28.0  | 21.7  | 30.8 | 37.1 | PE                | 11.4 | 14.8 | 10.5 | 8.7  |
| Spot Valuation     | NZ\$0.95          | EPS* (NZc)                   | 6.7   | 5.2   | 7.3  | 8.8  | EV/EBIT           | n/a  | n/a  | n/a  | n/a  |
| Risk rating        | Medium            | EPS growth* (%)              | -13.8 | -23.1 | 41.7 | 20.5 | EV/EBITDA         | n/a  | n/a  | n/a  | n/a  |
| Issued shares      | 421.6m            | DPS (NZc)                    | 0.0   | 4.9   | 5.5  | 6.2  | Price / NTA       | 1.4  | 1.4  | 1.4  | 1.4  |
| Market cap         | NZ\$323m          | Imputation (%)               | 0     | 0     | 25   | 100  | Cash div yld (%)  | 0.0  | 6.4  | 7.2  | 8.2  |
| Avg daily turnover | 367.1k (NZ\$259k) | *Based on normalised profits |       |       |      |      | Gross div yld (%) | 0.0  | 6.4  | 7.9  | 11.3 |

### What's changed?

- **Earnings:** Underlying NPAT -8.1%/-0.8%/-1.8% in FY21/FY22/FY23

### 1H21 performance disappointing

While there were positive aspects to the 1H21 result (e.g. +14% GWP growth in the Tower Direct business, +12% GWP growth in Partnerships [excluding closed books] and +265bps improvement in the MER to 36.5%), we struggle with the notion of "solid earnings with positive growth". We also question the timing of last week's downgrade; why didn't it occur earlier given the meaningful hit to 1H21 earnings? Underlying NPAT for 1H21 was down -33% vs 1H20, and while large events claims expenses weighed on the result (NZ\$9.3m in 1H21 vs NZ\$2.8m in 1H20) these have been well flagged and there has been no movement in this figure since the company's ASM in February 2021 where it reiterated FY21 guidance for greater than +5% growth in Underlying NPAT.

### Claims ratio dialled back

As foreshadowed in last week's announcement, TWR's performance has been hampered by an increase in large house claims and the "emerging" industry trends relating to inflationary pressures on building costs. In 1H21 large house claims increased in frequency to a reported all time high of 52, with TWR incurring NZ\$9.0m in claims and contributed 2.3% of the 3.6% increase in claims ratio relative to 1H20. While the 1H21 experience looks extreme relative to 1H20, it is not abnormal when considered in relation to average large house claims expense ratio over the previous six interim periods (5.0% vs 5.4% in 1H21). Early signs of building cost inflation in house claims contributed to a 1.1% headwind in the claims ratio, with TWR also calling out negative impact from motor (higher motor mix +1.9%, offset by lower motor claims -0.4%) while the Pacific business was a +1.4% benefit. While addressing claims inflation is a focus of the business, TWR is yet to move its rates in response. At our initiation we assumed a claims ratio (excluding large events) based on the median incurred over the last three years but have revised this up further in the short-term due to building cost inflation and also in the longer-term due to increasing share of new business weighted to Motor.

### Implied 2H21 performance not so ugly, but positive growth still unlikely in the short-term

Based on comments last week reiterating the NZ2.5cps dividend and a commitment to the 60-80% payout ratio despite the downgrade, we mistakenly assumed a greater hit to 2H21 earnings vs 1H21 earnings. The 1H21 earnings were a major miss on our estimates, but taking the half full approach the outlook for 2H21 is now less bad, and implies -1% to -14% Underlying NPAT growth against the prior year (after tax adjustment for large claims differences).

**Tower Limited (TWR)**

| <b>Market data (NZ\$)</b>              |              |              |              |              |                    | <b>Spot valuations (NZ\$)</b>        |              |              |              |              | <b>0.95</b>  |
|--|--------------|--------------|--------------|--------------|--------------------|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Priced as at 26 May 2021               |              |              |              |              | <b>0.77</b>        | 1. PE relative                       |              |              |              |              | <b>0.96</b>  |
| 52 week high / low                     |              |              |              |              | <b>0.89 / 0.57</b> | 2. PB relative                       |              |              |              |              | <b>0.95</b>  |
| Market capitalisation (NZ\$m)          |              |              |              |              | <b>324.7</b>       | 3. n/a                               |              |              |              |              | <b>n/a</b>   |
| <b>Key WACC assumptions</b>            |              |              |              |              |                    | <b>DCF valuation summary (NZ\$m)</b> |              |              |              |              |              |
| Risk free rate                         |              |              |              |              | <b>2.30%</b>       | Total firm value                     |              |              |              |              | <b>n/a</b>   |
| Equity beta                            |              |              |              |              | <b>1.20</b>        | (Net debt)/cash                      |              |              |              |              | <b>n/a</b>   |
| WACC                                   |              |              |              |              | <b>10.1%</b>       | Less: Capitalised operating leases   |              |              |              |              | <b>n/a</b>   |
| Terminal growth                        |              |              |              |              | <b>1.5%</b>        | Value of equity                      |              |              |              |              | <b>n/a</b>   |
| <b>Profit and Loss Account (NZ\$m)</b> |              |              |              |              |                    | <b>Valuation Ratios</b>              |              |              |              |              |              |
| Sales revenue                          | <b>2019A</b> | <b>2020A</b> | <b>2021E</b> | <b>2022E</b> | <b>2023E</b>       |                                      | <b>2019A</b> | <b>2020A</b> | <b>2021E</b> | <b>2022E</b> | <b>2023E</b> |
| 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)                               | 9.9          | 11.5         | 14.9         | 10.5         | 8.7          |
| Net interest                           | n/a          | n/a          | n/a          | n/a          | n/a                | Price/NTA (x)                        | 1.4          | 1.4          | 1.4          | 1.4          | 1.4          |
| Associate income                       | 0            | 0            | 0            | 0            | 0                  | Free cash flow yield (%)             | 7.6          | 5.8          | 29.4         | 17.9         | 19.1         |
| Tax                                    | n/a          | n/a          | n/a          | n/a          | n/a                | Net dividend yield (%)               | 0.0          | 0.0          | 6.3          | 7.1          | 8.1          |
| Minority interests                     | 0.2          | 0.4          | 0.9          | 0.9          | 0.9                | Gross dividend yield (%)             | 0.0          | 0.0          | 6.3          | 7.8          | 11.3         |
| Normalised NPAT                        | 27.3         | 28.0         | 21.7         | 30.8         | 37.1               | <b>Key Ratios</b>                    |              |              |              |              |              |
| Abnormals/other                        | (10.7)       | (16.1)       | (1.3)        | (1.8)        | (1.4)              | Return on assets (%)                 | n/a          | n/a          | n/a          | n/a          | n/a          |
| Reported NPAT                          | 16.6         | 11.9         | 20.4         | 29.0         | 35.7               | Return on equity (%)                 | 9.4          | 8.1          | 6.1          | 8.6          | 10.1         |
| Normalised EPS (cps)                   | 7.8          | 6.7          | 5.2          | 7.3          | 8.8                | Return on funds employed (%)         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| DPS (cps)                              | 0            | 0            | 4.9          | 5.5          | 6.2                | EBITDA margin (%)                    | n/a          | n/a          | n/a          | n/a          | n/a          |
|  |              |              |              |              |                    | EBIT margin (%)                      | n/a          | n/a          | n/a          | n/a          | n/a          |
| <b>Growth Rates</b>                    |              |              |              |              |                    | Capex to sales (%)                   | 10.9         | 2.8          | 3.9          | 3.9          | 3.9          |
| Revenue (%)                            | 6.8          | 10.3         | 5.0          | 6.3          | 4.2                | Capex to depreciation (%)            | n/a          | n/a          | n/a          | n/a          | n/a          |
| EBITDA (%)                             | n/a          | n/a          | n/a          | n/a          | n/a                | Imputation (%)                       | 0            | 0            | 0            | 25           | 100          |
| EBIT (%)                               | n/a          | n/a          | n/a          | n/a          | n/a                | Pay-out ratio (%)                    | 0            | 0            | 94           | 75           | 71           |
| Normalised NPAT (%)                    | >100         | 2.7          | -22.3        | 41.7         | 20.5               | <b>Capital Structure</b>             |              |              |              |              |              |
| Normalised EPS (%)                     | 84.7         | -13.8        | -23.1        | 41.7         | 20.5               | Solvency capital                     | 2019A        | 2020A        | 2021E        | 2022E        | 2023E        |
| Ordinary DPS (%)                       | n/a          | n/a          | n/a          | 13.2         | 13.5               | Minimum solvency capital             | 155.9        | 150.5        | 205.5        | 209.2        | 218.3        |
|  |              |              |              |              |                    | Total regulatory capital             | 106.6        | 102.3        | 83.3         | 84.4         | 84.4         |
|  |              |              |              |              |                    | Solvency ratio (%)                   | 275          | 287          | 346          | 352          | 368          |
| <b>Cash Flow (NZ\$m)</b>               |              |              |              |              |                    | <b>Operating Performance</b>         |              |              |              |              |              |
| EBITDA                                 | n/a          | n/a          | n/a          | n/a          | n/a                | Gross written premium                | 2019A        | 2020A        | 2021E        | 2022E        | 2023E        |
| Working capital change                 | n/a          | n/a          | n/a          | n/a          | n/a                | Gross earned premium                 | 356.8        | 385.1        | 402.3        | 427.6        | 445.6        |
| Interest & tax paid                    | 0            | 0            | 0            | 0            | 0                  | Reinsurance expense                  | 345.0        | 380.5        | 399.6        | 424.7        | 442.6        |
| Other                                  | 0            | 0            | 0            | 0            | 0                  | Net earned premium                   | (55.0)       | (57.2)       | (58.3)       | (61.9)       | (64.4)       |
| Operating cash flow                    | 24.6         | 18.9         | 95.6         | 58.0         | 61.9               | Net claims expense                   | 290.0        | 323.3        | 341.2        | 362.8        | 378.2        |
| Capital expenditure                    | (37.6)       | (10.5)       | (15.5)       | (16.5)       | (17.2)             | Large event claims expense           | (140.3)      | (149.7)      | (171.0)      | (178.7)      | (186.3)      |
| (Acquisitions)/divestments             | 0            | (9.5)        | (14.0)       | 0            | 0                  | Management and sales expenses        | (1.3)        | (9.7)        | (13.8)       | (14.8)       | (15.5)       |
| Other                                  | (42.0)       | (9.4)        | (35.0)       | (2.8)        | (2.9)              | Underwriting profit                  | (116.0)      | (126.6)      | (123.7)      | (127.0)      | (126.7)      |
| Funding available/(required)           | (55.0)       | (10.5)       | 31.1         | 38.8         | 41.9               | Investment and other revenue         | 32.4         | 37.3         | 32.6         | 42.3         | 49.7         |
| Dividends paid                         | 0            | 0            | (10.5)       | (23.2)       | (26.3)             | Financing costs                      | 7.0          | 6.4          | 1.2          | 2.8          | 4.4          |
| Equity raised/(returned)               | 0            | 44.9         | 0            | 0            | 0                  | Underlying profit before tax         | (0.3)        | (1.1)        | 0            | 0            | 0            |
| (Increase)/decrease in net debt        | (55.0)       | 34.4         | 20.6         | 15.6         | 15.6               | Income tax expense                   | 39.1         | 42.6         | 33.8         | 45.1         | 54.1         |
|  |              |              |              |              |                    | Underlying profit after tax          | (11.6)       | (14.1)       | (11.2)       | (13.4)       | (16.0)       |
| <b>Balance Sheet (NZ\$m)</b>           |              |              |              |              |                    | Abnormals                            | 2019A        | 2020A        | 2021E        | 2022E        | 2023E        |
| Working capital                        | 171.6        | 184.1        | 143.2        | 145.8        | 152.0              | Reported profit / (loss) after tax   | 16.8         | 12.3         | 21.3         | 29.9         | 36.6         |
| Fixed assets                           | 9.1          | 10.0         | 11.0         | 12.0         | 12.9               | <b>Key ratios</b>                    |              |              |              |              |              |
| Intangibles                            | 106.7        | 119.6        | 128.8        | 131.9        | 133.0              | Tower Direct GWP growth %            | 9.2%         | 13.7%        | 10.7%        | 8.8%         | 5.0%         |
| Right of use asset                     | 0            | 7.2          | 14.2         | 11.8         | 9.5                | Partnership GWP growth %             | 2.9%         | 2.8%         | 2.4%         | 3.0%         | 3.0%         |
| Other assets                           | 278.1        | 277.6        | 302.7        | 302.7        | 302.7              | Total GWP growth %                   | 6.2%         | 7.9%         | 4.5%         | 6.3%         | 4.2%         |
| Total funds employed                   | 565.5        | 598.6        | 599.8        | 604.2        | 610.2              | Total claims ratio %                 | 49%          | 49%          | 54%          | 53%          | 53%          |
| Net debt/(cash)                        | (47.1)       | (80.1)       | (99.3)       | (114.9)      | (130.5)            | MER %                                | 40%          | 39%          | 36%          | 35%          | 34%          |
| Lease liability                        | 0            | 8.7          | 14.8         | 12.0         | 9.1                | Combined ratio %                     | 89%          | 88%          | 90%          | 88%          | 87%          |
| Other liabilities                      | 319.9        | 322.9        | 327.6        | 343.7        | 357.8              |                                      |              |              |              |              |              |
| Shareholder's funds                    | 290.9        | 345.0        | 353.6        | 359.4        | 368.8              |                                      |              |              |              |              |              |
| Minority interests                     | 1.8          | 2.2          | 3.0          | 3.9          | 4.9                |                                      |              |              |              |              |              |
| Total funding sources                  | 565.5        | 598.6        | 599.8        | 604.2        | 610.2              |                                      |              |              |              |              |              |

## 1H21 Result Summary

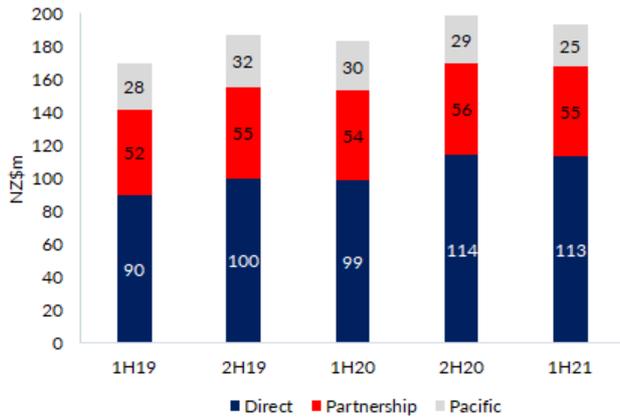
Figure 1. 1H21 Results Summary

| NZ\$m                                      | 1H20         | 1H21         | Change        | 1H21E<br>FBMST | Actual vs<br>estimate |
|--|--------------|--------------|---------------|----------------|-----------------------|
| <b>Operating Performance</b>               |              |              |               |                |                       |
| <b>Gross written premium</b>               | <b>183.6</b> | <b>193.9</b> | <b>5.6%</b>   | <b>195.4</b>   | <b>-0.8%</b>          |
| Gross earned premium                       | 187.3        | 195.3        | 4.3%          | 194.9          | 0.2%                  |
| Reinsurance expense                        | (27.9)       | (28.1)       | 0.7%          | (29.3)         | -3.9%                 |
| <b>Net earned premium</b>                  | <b>159.4</b> | <b>167.1</b> | <b>4.8%</b>   | <b>165.6</b>   | <b>0.9%</b>           |
| Net claims expense                         | (71.1)       | (80.5)       | 13.2%         | (76.2)         | 5.7%                  |
| Large event claims expense                 | (2.8)        | (9.3)        | 232.1%        | (10.0)         | -7.0%                 |
| Management and sales expenses              | (62.5)       | (61.0)       | -2.4%         | (60.9)         | 0.1%                  |
| <b>Underwriting profit</b>                 | <b>22.9</b>  | <b>16.2</b>  | <b>-29.3%</b> | <b>18.5</b>    | <b>-12.4%</b>         |
| Net Investment                             | 2.2          | 0.7          | -68.2%        | 0.6            | 16.7%                 |
| Other items                                | (0.4)        | -            | n/a           | (0.2)          | n/a                   |
| <b>Underlying profit before tax</b>        | <b>24.7</b>  | <b>16.9</b>  | <b>-31.6%</b> | <b>18.9</b>    | <b>-10.6%</b>         |
| Income tax expense                         | (7.9)        | (5.6)        | -29.1%        | (5.6)          | -0.7%                 |
| <b>Underlying NPAT</b>                     | <b>16.9</b>  | <b>11.3</b>  | <b>-33.1%</b> | <b>13.3</b>    | <b>-14.8%</b>         |
| Reported NPAT                              | 14.9         | 12.0         | -19.8%        | 12.4           | -3.5%                 |
| <b>Underlying NPAT before large events</b> | <b>18.8</b>  | <b>17.5</b>  | <b>-6.8%</b>  | <b>20.3</b>    | <b>-13.7%</b>         |
|  |              |              |               |                |                       |
| EPS (cps)                                  | 3.5          | 2.7          | -21.9%        | 2.9            | -5.9%                 |
| DPS (cps)                                  | -            | 2.5          | n/a           | 2.5            | 0.0%                  |
|  |              |              |               |                |                       |
| Claims ratio excluding large events        | 44.6%        | 48.2%        | 357 bps       | 46.0%          | (217) bps             |
| Large events claims ratio                  | 1.8%         | 5.6%         | 381 bps       | 5.1%           | (43) bps              |
| Total claims ratio                         | 46.4%        | 53.7%        | 738 bps       | 52.0%          | (170) bps             |
| MER  | 39.0%        | 36.5%        | (250) bps     | 36.8%          | 29 bps                |
| Combined ratio                             | 85.4%        | 90.3%        | 493 bps       | 88.8%          | (147) bps             |
|  |              |              |               |                |                       |
| Reported solvency capital                  | 150.4        | 180.4        | 19.9%         |                |                       |
| Solvency Margin                            | 97.5         | 122.1        | 25.2%         |                |                       |
| Solvency Ratio                             | 284%         | 309%         | n/a           |                |                       |

Source: Forsyth Barr analysis

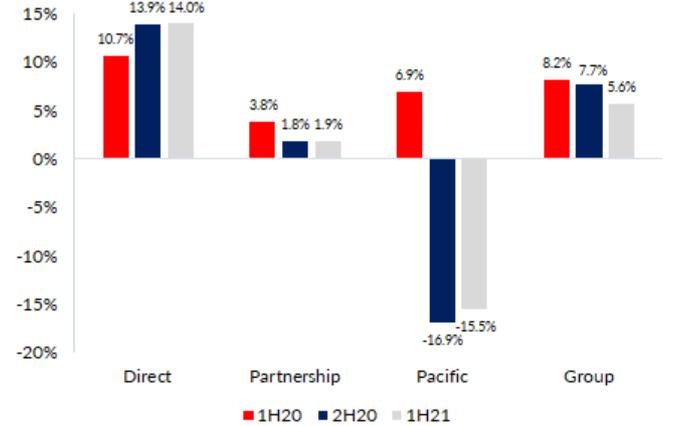
## Key Charts

Figure 2. GWP by Business Unit



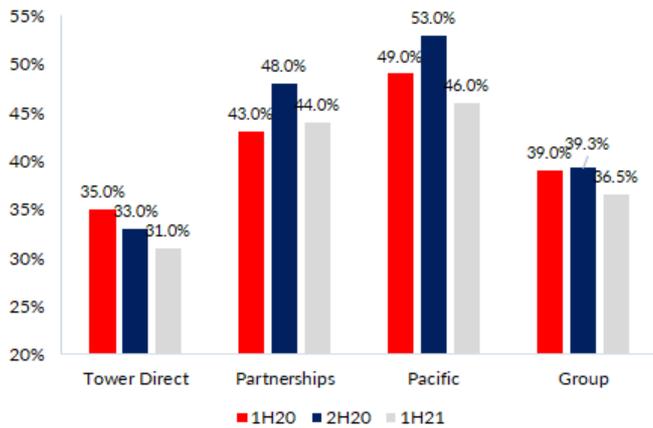
Source: Forsyth Barr analysis

Figure 3. GWP Growth by Business Unit



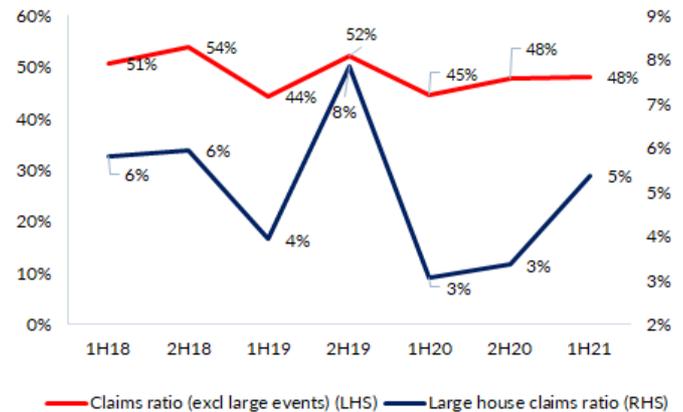
Source: Forsyth Barr analysis

Figure 4. Continued improvement in MER



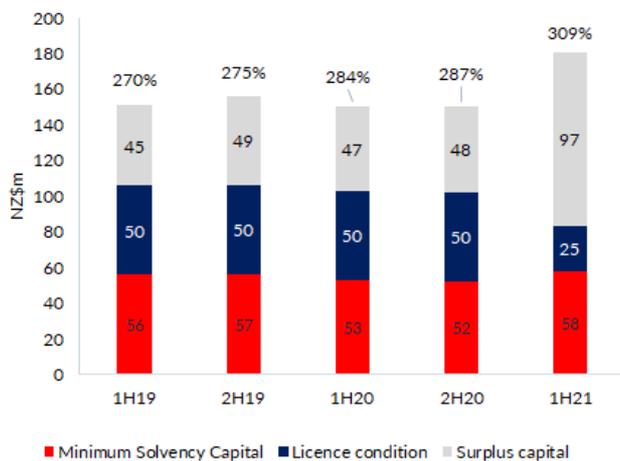
Source: Forsyth Barr analysis

Figure 5. Claims ratios (excl large event claims)



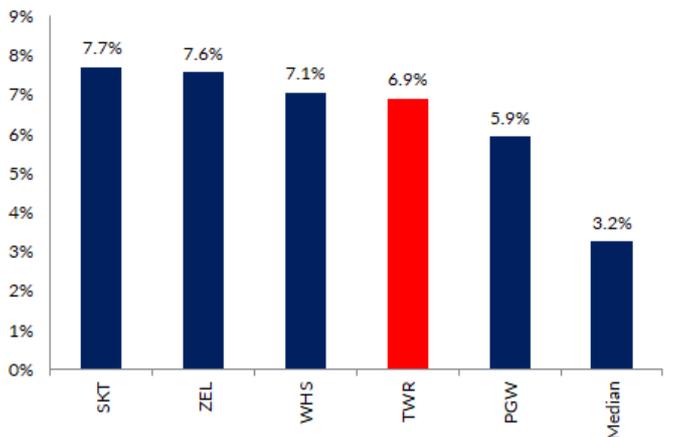
Source: Forsyth Barr analysis

Figure 6. Strong capital and solvency structure



Source: Forsyth Barr analysis

Figure 7. 12month forward cash yield



Source: Forsyth Barr analysis

## Earnings changes

Figure 8. Earnings revisions

| NZ\$m                               | FY21E        |              |              | FY22E        |              |              | FY23E        |              |              |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                     | Old          | New          | Change       | Old          | New          | Change       | Old          | New          | Change       |
| <b>Operating Performance</b>        |              |              |              |              |              |              |              |              |              |
| <b>Gross written premium</b>        | 404.7        | 402.3        | -0.6%        | 426.9        | 427.6        | 0.1%         | 446.0        | 445.6        | -0.1%        |
| Gross earned premium                | 402.2        | 399.6        | -0.6%        | 424.3        | 424.7        | 0.1%         | 443.2        | 442.6        | -0.1%        |
| Reinsurance expense                 | (60.2)       | (58.3)       | -3.1%        | (61.7)       | (61.9)       | 0.3%         | (64.3)       | (64.4)       | 0.1%         |
| <b>Net earned premium</b>           | <b>342.0</b> | <b>341.2</b> | <b>-0.2%</b> | <b>362.6</b> | <b>362.8</b> | <b>0.1%</b>  | <b>378.9</b> | <b>378.2</b> | <b>-0.2%</b> |
| Net claims expense                  | (169.6)      | (171.0)      | 0.8%         | (177.7)      | (178.7)      | 0.6%         | (183.3)      | (186.3)      | 1.6%         |
| Large event claims expense          | (13.7)       | (13.8)       | 0.7%         | (14.8)       | (14.8)       | 0.1%         | (15.5)       | (15.5)       | 0.2%         |
| Management and sales expenses       | (124.4)      | (123.7)      | -0.6%        | (126.9)      | (127.0)      | 0.1%         | (128.8)      | (126.7)      | -1.7%        |
| <b>Underwriting profit</b>          | <b>34.2</b>  | <b>32.6</b>  | <b>-4.7%</b> | <b>43.2</b>  | <b>42.3</b>  | <b>-2.1%</b> | <b>51.3</b>  | <b>49.7</b>  | <b>-3.1%</b> |
| Investment and other revenue        | 1.2          | 1.2          | 0.6%         | 2.7          | 2.8          | 3.1%         | 4.2          | 4.4          | 3.3%         |
| Financing costs                     | (0.4)        | -            | n/a          | (0.4)        | -            | n/a          | (0.4)        | -            | n/a          |
| <b>Underlying profit before tax</b> | <b>35.1</b>  | <b>33.8</b>  | <b>-3.5%</b> | <b>45.5</b>  | <b>45.1</b>  | <b>-0.9%</b> | <b>55.2</b>  | <b>54.1</b>  | <b>-1.9%</b> |
| Income tax expense                  | (10.5)       | (11.2)       | 7.2%         | (13.6)       | (13.4)       | -1.3%        | (16.4)       | (16.0)       | -2.2%        |
| <b>Underlying profit after tax</b>  | <b>24.6</b>  | <b>22.6</b>  | <b>-8.1%</b> | <b>32.0</b>  | <b>31.7</b>  | <b>-0.8%</b> | <b>38.7</b>  | <b>38.1</b>  | <b>-1.8%</b> |
| Reported profit / (loss) after tax  | 22.8         | 21.3         | -6.8%        | 30.6         | 29.9         | -2.0%        | 37.6         | 36.6         | -2.6%        |
| <br>                                |              |              |              |              |              |              |              |              |              |
| EPS (cps)                           | 5.3          | 4.8          | -9.3%        | 7.2          | 6.9          | -3.9%        | 8.8          | 8.5          | -4.2%        |
| DPS (cps)                           | 5.2          | 4.9          | -5.8%        | 5.7          | 5.5          | -3.7%        | 6.5          | 6.2          | -4.0%        |
| Payout based on cash EPS            | 89%          | 92%          |              | 75%          | 75%          |              | 70%          | 70%          |              |
| <br>                                |              |              |              |              |              |              |              |              |              |
| Underlying ROE                      | 7%           | 6%           | -9.2%        | 9%           | 9%           | -3.1%        | 11%          | 10%          | -4.1%        |
| <br>                                |              |              |              |              |              |              |              |              |              |
| Claims ratio excluding large events | 49.6%        | 50.1%        | 52 bps       | 49.0%        | 49.3%        | 26 bps       | 48.4%        | 49.3%        | 87 bps       |
| Large events claims ratio           | 4.0%         | 4.0%         | 4 bps        | 4.1%         | 4.1%         | 0 bps        | 4.1%         | 4.1%         | 2 bps        |
| Total claims ratio                  | 53.6%        | 54.2%        | 56 bps       | 53.1%        | 53.3%        | 26 bps       | 52.5%        | 53.4%        | 89 bps       |
| MER                                 | 36.4%        | 36.2%        | (14) bps     | 35.0%        | 35.0%        | 0 bps        | 34.0%        | 33.5%        | (50) bps     |
| Combined ratio                      | 90.0%        | 90.4%        | 44 bps       | 88.1%        | 88.3%        | 26 bps       | 86.5%        | 86.9%        | 39 bps       |

Source: Forsyth Barr analysis

**Figure 9. Price performance**



Source: Forsyth Barr analysis

**Figure 10. Substantial shareholders**

| Shareholder               | Latest Holding |
|---------------------------|----------------|
| Bain Capital Credit LP    | 20.0%          |
| Salt Funds Management     | 8.4%           |
| ACC                       | 8.4%           |
| Investment Services Group | 6.5%           |
| NZ Funds Management       | 5.2%           |

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

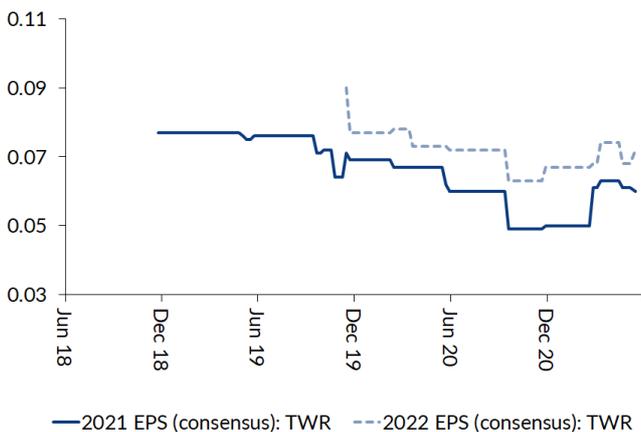
**Figure 11. International valuation comparisons**

| Company   | Code   | Price     | Mkt Cap    | PE           |              | EV/EBITDA  |            | EV/EBIT    |              | Cash Yld    |
|---|--------|-----------|------------|--------------|--------------|------------|------------|------------|--------------|-------------|
| (metrics re-weighted to reflect TWR's balance date - September) |        |           |            |              |              |            |            |            |              |             |
|   |        |           | (m)        | 2021E        | 2022E        | 2021E      | 2022E      | 2021E      | 2022E        | 2022E       |
| Tower Ltd   | TWR NZ | NZ\$0.77  | NZ\$323    | 14.8x        | 10.5x        | n/a        | n/a        | n/a        | n/a          | 7.2%        |
| HEARTLAND GROUP HOLDINGS *                                      | HGH NZ | NZ\$1.89  | NZ\$1,107  | 12.7x        | 12.2x        | n/a        | n/a        | n/a        | n/a          | 5.9%        |
| INSURANCE AUSTRALIA GROUP                                       | IAG AT | A\$4.93   | A\$12,153  | 15.8x        | 16.2x        | n/a        | n/a        | n/a        | 11.5x        | 4.9%        |
| SUNCORP GROUP   | SUN AT | A\$10.87  | A\$13,946  | 15.3x        | 15.3x        | n/a        | n/a        | n/a        | 55.6x        | 5.2%        |
| QBE INSURANCE GROUP   | QBE AT | US\$10.86 | US\$16,020 | 13.6x        | 17.7x        | n/a        | n/a        | n/a        | 12.5x        | 3.4%        |
| <b>Compco Average:</b>  |        |           |            | <b>14.4x</b> | <b>15.3x</b> | <b>n/a</b> | <b>n/a</b> | <b>n/a</b> | <b>26.5x</b> | <b>4.8%</b> |
| <b>TWR Relative:</b>  |        |           |            | <b>3%</b>    | <b>-32%</b>  | <b>n/a</b> | <b>n/a</b> | <b>n/a</b> | <b>n/a</b>   | <b>48%</b>  |

EV = Current Market Cap + Actual Net Debt

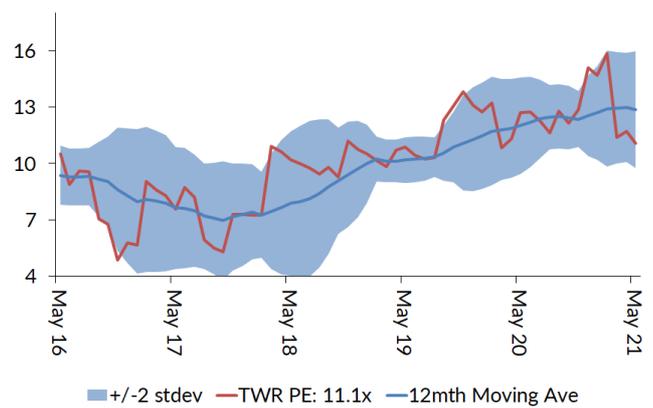
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (TWR) companies fiscal year end

**Figure 12. Consensus EPS momentum (NZ\$)**



Source: Forsyth Barr analysis

**Figure 13. One year forward PE (x)**



Source: Forsyth Barr analysis

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