Research as a Service

Tower Ltd

Focused on sustainable growth and earnings

Insurance

Tower Limited is a New Zealand-based general insurance company. Tower's insurance operations are focused on New Zealand and the Pacific region. The group offers car, home & contents, business, travel and boat insurance. Over the last few years, Tower has resolved a number of legacy issues following the Christchurch earthquake, and also embarked on a strategic direction of digitalisation and simplification, including changes to its IT systems and legal structure. Tower recently acquired Youi NZ, Club Marine and ANZ Bank's rights over a portfolio underwritten by Tower for $14m. TWR was well prepared for the impact of COVID in FY20 and in FY21 remains well capitalised (3x regulatory minimum at HY21) despite recent disaster-related claims and a reduction in FY21 guidance. Tower is focused on sustainable growth and earnings through enhanced insights from data to inform its digitisation agenda both in New Zealand and the Pacific region. The company is leveraging partnerships that allow the business to scale and further expand its product offering.

Business model

Tower has a market share of approximately 9% of the New Zealand general insurance market and offers general insurance products in NZ. The company has repositioned over the last few years to become a cloud-based digital challenger brand in New Zealand. The transformation leaves the company with more efficient operations and the potential to substantially lift returns on capital. However loss rates in some classes combined with COVID impact and some weather events have been challenging headwinds in FY21.

With growth come returns?

In May 2021 the company reduced full year guidance due to higher frequency of large house claims (mostly fire), lower-than-expected investment returns, higher-than-expected large events and emerging inflation in claim costs. Severe floods on New Zealand's West Coast have not caused the company to update guidance with the full year result due in November.

Tower needs an improved track record but isn't overvalued

TWR competes directly with the larger listed general insurers with operations in Australia and New Zealand as well as the Australian operations of international groups and smaller fintech businesses. The Australian market has improved with premium growth in FY20 and 21 but remains competitive with smaller aggressive challenger brands. Two of these operate in New Zealand alongside TWR as do two major insurers. TWR is trading on a lower Price/Book Value than the three large companies at 0.81x versus IAG (2.04x), SUN (1.18x) and QBE (1.40x).

Historical earnings and ratios (A$m)

Year	Revenue	EBITDA Adj.*	NPAT Adj.*	NPAT Rep.	EPS Adj.*(c)	EPS Rep.	EV/Sales	EV/EBITDA
09/18a	257.9	20.1	(6.2)	(6.2)	(1.47)	(1.47)	0.8	10.4
09/19a	281.4	32.0	15.4	15.4	3.64	3.64	0.7	6.5
09/20a	296.0	33.8	11.0	11.0	2.60	2.60	0.7	6.2
09/21e	376.4	n.a.	21.6	21.6	5.12	5.12	0.6	n.a.

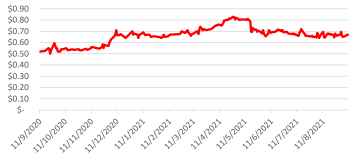
Source: Company data *EBITDA and NPAT adj for one-time, non-cash items Refinitiv Eikon FY21e is based on company guidance

10th September 2021

Share details

ASX Code	TWR
Share price	$0.67
Market Capitalisation	$282.5M
Shares on issue	421.6M
Net cash at 31/03/2021	$4.3M
Free float	84%

Share performance (12 months)



Upside Case

- Efficiencies improve returns
- Customer use of digital platform improves share
- Reinsurance covers any further weather events

Downside Case

- Investment returns remain low
- Major brands compete effectively on customer access
- Claims continue to track above expectations in Housing.

Catalysts/upcoming events

FY21 Result November 2021

AGM February 2022

Interim results FY22 May 2022

Comparable companies (Aust/NZ)

Insurance Australia Group (ASX:IAG), Suncorp Group (ASX:SUN), QBE Insurance (ASX:QBE)

Top 5 shareholders

Bain Capital	16.00%
Accident Compensation Corp	8.37%
New Zealand Funds Management	6.31%
Devon Funds Management	4.14%
BT Funds Management (NZ)	3.59%

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FINANCIAL SERVICES GUIDE

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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