

Company Update Report

Discovery Limited

Financials

Analyst thesis

Our recommendation is based on:

- Premium brand and consumer focus: Serves affluent, health-conscious clients who value rewards, wellness integration, and quality service, enabling consistently higher pricing than other insurers, while maintaining strong customer loyalty and brand strength.
- Vitality moat & diversification: The data-driven Vitality platform drives deeper engagement and cross-selling opportunities. Earnings are well spread across health, life, banking, and fee-based services, supporting stability and predictable cash flow.
- Growth runway: International Vitality partnerships, new product extensions, and Discovery Bank's expansion provide scalable long-term upside.
- A broad product suite enables Discovery to increase value per client by cross-selling health, life, banking, and investment offerings, thereby expanding revenue without incurring heavy new-customer acquisition costs.

As at: 23 September 2025

Ticker	DSY-ZA
Share price	R196
Intrinsic value	R231
Upside/(Downside)	18%
Recommendation	Buy

Latest company and market insights

Key highlights

In this report, we review the latest FY25 results for the year ended 30 June 2025.

Financial results at a glance:

- Normalised profits from operations increased by 29% from R11.8 billion in FY24 to R15.2 billion. Locally, contribution was driven by a 7% increase in Health, a 14% increase in Life, a 29% increase in Invest, and a 229% rise in Insure. On the offshore side, VitalityHealth increased by 173% and VitalityLife rose by 70%.
- New business API on the SA side had strong headwinds, as sectors like Health declined by 14% and Life by 10%. The offshore segment looked more promising as new business API increased on all fronts, most notably VitalityHealth by 28% and PAHI by 225%. Overall, new business API declined by 2% year-on-year.
- Income from non-insurance business lines grew by 12% to R6.6 billion in FY25, compared to R5.9 billion in FY24, as it continues to become an integral part of Discovery's future earnings potential.
- Basic headline earnings per share rose by 30% to 1 447 cents in FY25, up from 1 117 cents in FY24.
- Cash conversion ratio was 77% for FY25, up from 65% in FY24.
- Embedded value per share improved by 14% to R189.85 in FY25, from R166.95 in FY24, driven by strong contributions from non-covered businesses, positive experience variances, and the competitive advantages of the Shared-value Insurance model.
- The normalised return on equity improved to 15.4% in FY25, from 13.5% in FY24.
- The financial leverage ratio was reduced to 16.8% in FY25, down from 20.3% in FY24.
- A final dividend of 201 cents per share was declared, bringing the full-year dividend to 288 cents per share, an increase of 33% from FY24.

Management's guidance:

The guidance provided by management for the next four years is for normalised operating profits to grow at a CAGR of 15% to 20%, lower than the 29% growth seen from FY24 to FY25. The target normalised ROE is set between 15% and 20% while a cash conversion ratio of between 60% and 70% is expected. Lastly, management set an FLR target of between 10% and 20%.

Sector outlook

The South African insurance sector continues to evolve rapidly, driven by digitalisation, artificial intelligence, and expanding insurtech partnerships that streamline operations and enhance customer engagement. Economic growth remains modest and post-COVID inflationary pressures persist, keeping affordability and cost-efficient, online solutions at the forefront of consumer demand and favouring direct insurers and tech-enabled models. Regulatory priorities have shifted from implementing IFRS 17 to optimising reporting, strengthening capital management, and intensifying climate-risk and stress-testing requirements. With climate events and social challenges becoming more pronounced, insurers are expected to align products with sustainability objectives and broaden market inclusion. The rise of personalised products, behavioural data analytics, and digital platforms continues to reshape competition, making adaptation to a highly digitised and customer-driven market essential for long-term success.

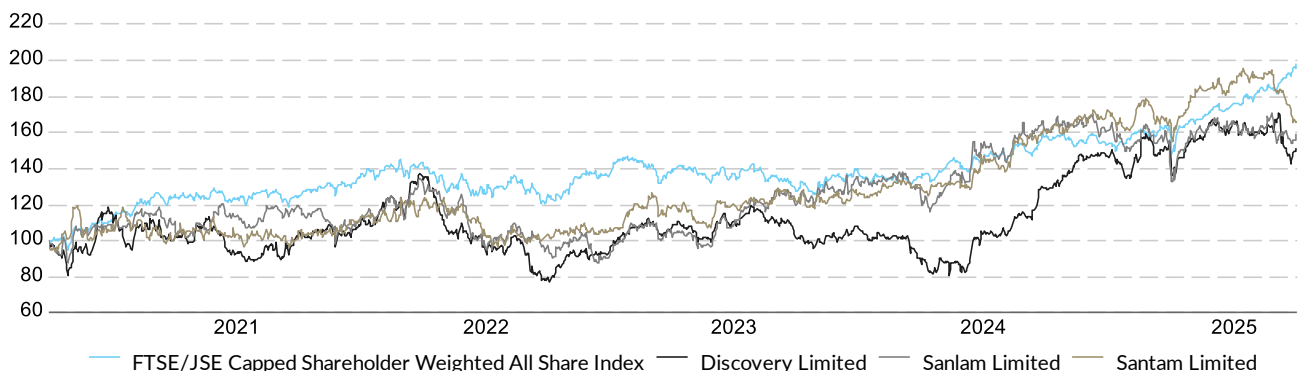


Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★★☆	Expected two-year operating profit CAGR is 8.5% and expected three-year EPS CAGR is 17%. The EPS growth expectation is driven by further insurance sector growth, expansion of value-added services, and improved cost control.
Valuation	★★★★☆	The share price is trading at an 18% discount to the IV. Current NTM P:E of 12x is trading at a 30% discount to the five-year average P:E of 16.9x.
Dividend	★★★★☆	LTM dividend yield 1.22%. NTM dividend yield 1.7%.
Issuance	★★★★☆	Shares issued have increased by 1% in the past five years
Catalyst		Cross-sell acceleration: Greater uptake of health, life, banking, and investment products boosts customer value and margins. Discovery Bank scaling: Faster customer growth, accelerating the bank's earnings potential and profitability. Premium pricing resilience: Sustained above-market premiums with high retention highlight brand strength. Tech & AI gains: Automation and analytics improve underwriting accuracy and cost efficiency.
Quality of earnings	★★★★☆	Five-year average ROE 12.3%. Five-year average net profit margin 8.5%. Eight of the past 10 years had both positive earnings with growth. Improving ROE and net profit margins to pre-COVID levels.
Moat	★★★★☆	Intangible Assets: Vitality ecosystem, the unique rewards platform driving strong engagement and retention. Network effect: Product offering expansion possibilities to both new and existing clients. Brand moat: Strong brand recognition that allows premium pricing and customer loyalty.
Management and governance	★★★★☆	Adrian Gore, the CEO, is the founder of Discovery, established in 1992. The CFO, Deon Viljoen, joined Discovery in 2017, with vast experience in assurance, risk, and financial services. The management of Discovery has publicly warned about NHI, causing some pushback from proponents of the NHI.
Balance sheet	★★★★☆	Debt to equity 32.1%. Total debt levels have remained fairly stable over the past six years. Debt to assets 6.4%.
Risks		Faster implementation of the NHI, causing a decline in margins and/or profits. Slow adoption of the digital-first bank. New entrants into the market, like Old Mutual, to offer a banking service, or Sanlam, in a joint venture with TymeBank, will offer a personal loan offering. Higher inflation levels lead to higher claim settlements. A worldwide market decline could pose a threat to held investments. Regulation: the health and banking sectors are highly regulated, which can cause unexpected changes in regulations or costs.

Source: FactSet

Graph 1: Five-year price (Indexed to 100)



Source: FactSet

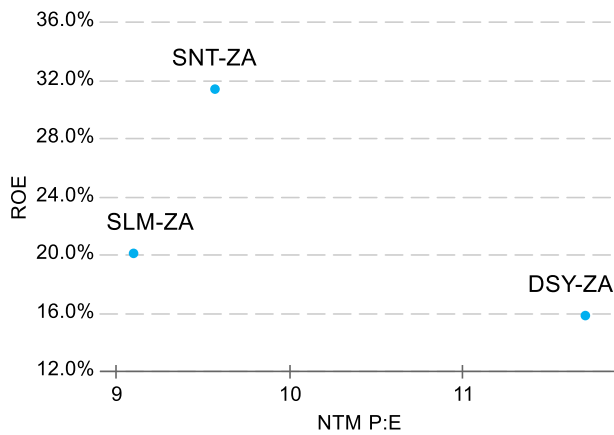


Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
DSY-ZA	0.7%	-9.6%	-8.9%	-1.4%	14.9%	34.2%	82.7%	55.6%	45.1%
SLM-ZA	-2.7%	-7.3%	-5.6%	1.3%	-4.1%	23.8%	61.0%	66.5%	42.6%
SNT-ZA	1.5%	-9.0%	-4.4%	4.2%	10.5%	42.3%	75.4%	81.2%	86.8%
Capped SWIX	26.2%	4.7%	11.3%	19.5%	25.0%	45.9%	59.6%	96.4%	72.1%

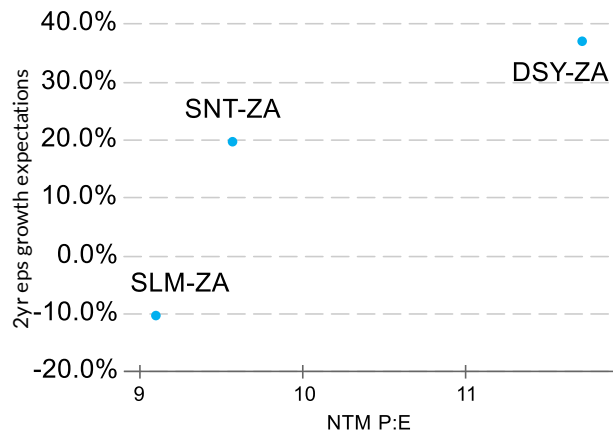
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y CAGR forecast



Source: FactSet

Valuation

Discovery was valued using a Price-to-Group Embedded Value (P/GEV) approach, applying the 12-year average P/GEV multiple to capture normalised market conditions. In our scenario analysis, the bull case uses two standard deviations multiple above the mean to reflect strong growth, while the bear case applies two standard deviations multiple below the mean to factor in downside risk. Each outcome was probability-weighted, and the weighted average provides the intrinsic value, blending historical trends with current strategy and macro considerations.

Table 3: Valuation summary

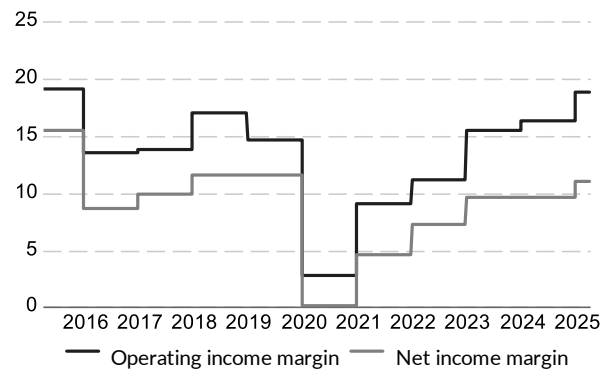
	Valuation Probabilities		
	Bear	Base	Bull
P/GEV	0.7x	1.3x	1.9x
Probability	25%	55%	20%
Implied share price	R121	R236	R352
Weighted intrinsic value	R231		
Upside/(Downside)	18%		

Graph 4: NTM P:E relative to benchmark



Source: FactSet

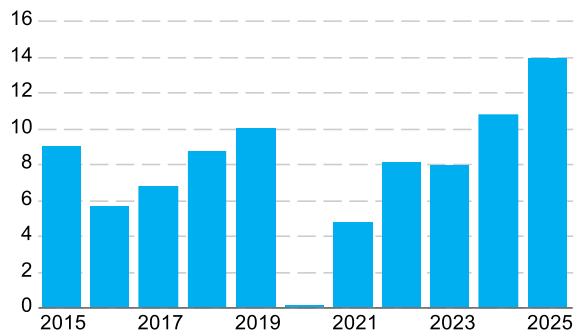
Graph 5: Profit margins (%)



Source: FactSet

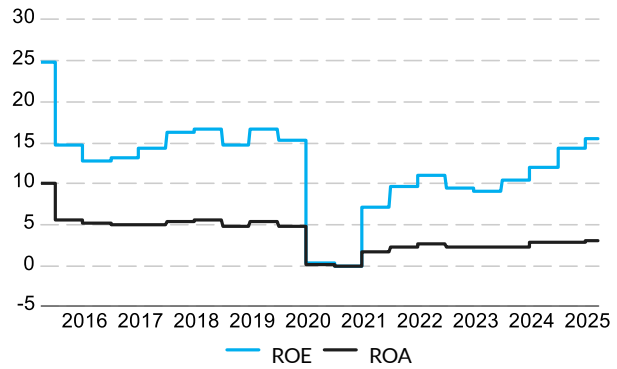


Graph 6: 10Y EPS Y/Y growth (%)



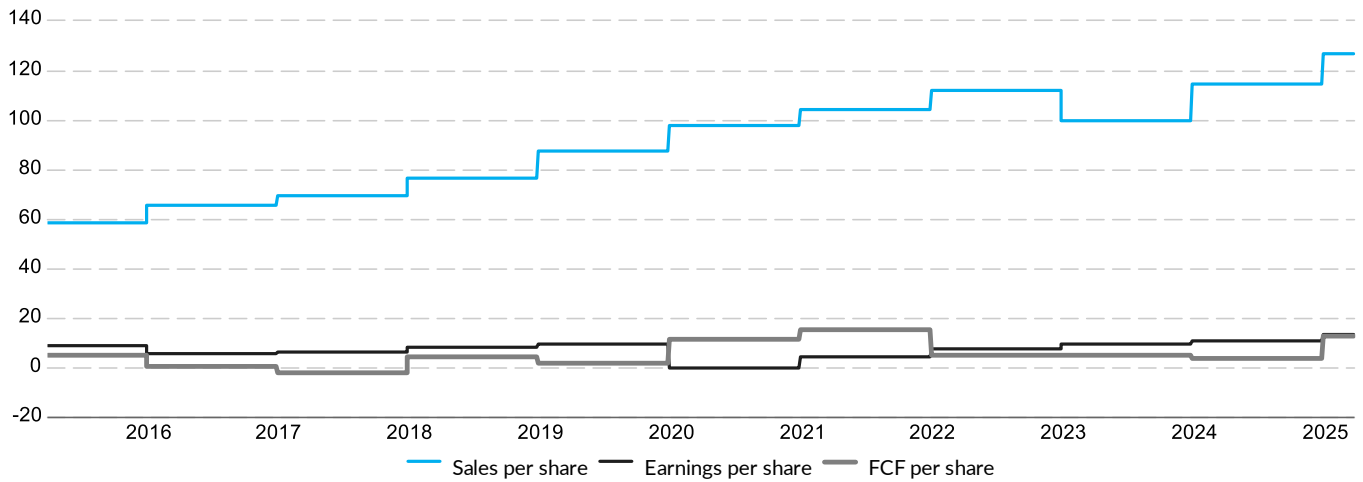
Source: FactSet

Graph 7: ROE and ROA (%)



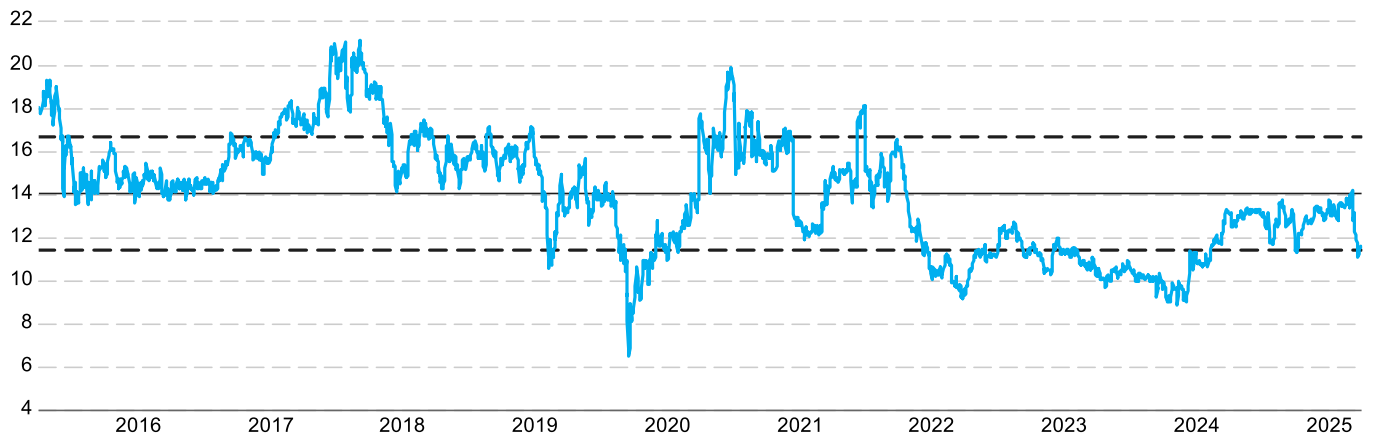
Source: FactSet

Graph 8: Sales, earnings and FCF per share (Rand)



Source: FactSet

Graph 9: NTM P:E



Source: FactSet



Table 4: Financials and ratios

Income statement (RMn)	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	69 382	74 097	66 395	76 338	84 623	11%	5%	5%
Losses, Claims and Reserves	42 973	32 101	39 826	46 117	49 028	6%	15%	6%
Selling, general and admin expenses	20 056	33 690	16 252	17 715	19 610	11%	-17%	-6%
Profit before interest and tax	5 304	7 858	10 828	12 387	15 770	27%	26%	59%
Profit before tax	4 195	6 944	9 058	10 264	13 647	33%	25%	76%
Net income	3 220	5 479	6 572	7 549	9 558	27%	20%	122%
EPS (Rand)	5	8	10	11	14	26%	19%	149%
Balance sheet (RMn)	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25	1Y Growth	3Y CAGR	5Y CAGR
Total assets	195 766	214 211	258 739	279 634	327 450	17%	15%	15%
Total shareholders equity	45 640	52 776	48 945	54 451	65 699	21%	8%	8%
Total liabilities	150 126	161 435	209 794	225 183	261 751	16%	17%	17%
Ratios	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25	5Y Avg		
Price to book	2.27	1.84	1.44	1.85	2.07	1.89		
Price to earnings	31.9	17.4	12.7	12.9	13.9	17.8		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
API	Annualised premium income
CAGR	Compounded annual growth rate
DCF	Discounted Cash Flow
DSY	Discovery Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FCF	Free cash flow
FLR	Financial leverage ratio
FY	Financial year
LTM	Last twelve months (also known as trailing)
M	Month
MTD	Month to date
NAV	Net asset value
NTM	Next twelve months (also known as forward)
P/GEV	Price to group equity value
P:E	Price to earnings
PAHI	Ping An Health Insurance
ROA	Return on assets
ROE	Return on equity
Y/y	Year(s)



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