

ZIM

## 2023 guidance optimistic, in our view

Reiterate Rating: UNDERPERFORM | PO: 8.70 USD | Price: 9.17 USD

## 2023 guidance appears optimistic

Ocean spot rates have declined 15% in the past 2 months (-82% from July 2022 peak), driven by weak demand and supply additions. With peak season behind us and further vessel deliveries, we expect spot rates to remain under pressure into year-end. Therefore, we now expect ZIM to lower its 2023E guidance with 3Q results, as our new EBIT loss estimate of -\$546m is below the low end of the -\$500m to -\$100m guidance range. We lower our PO to \$8.7 from \$11 because of our lower earnings estimates and target multiple of 0.25x (from 0.3x before) 2024E P/B. Our lower estimates are due to expected lower freight rates, and our lower target multiple is due to our forecasted higher earnings loss and negative cash flow. With our PO suggesting more than 5% downside risk, we reiterate our Underperform rating.

## A tsunami of ships – freight rate decline continues

New vessel deliveries per month have averaged c1% of the global fleet since June, well exceeding demand. We are just at the start of new supply, with the industry orderbook sitting at c28% of the global fleet. The c9% of gross additions in 2024E mean that the container shipping market should remain over supplied even if demand improves from a weak performance this year, which was marked by de-stocking of inventories. Idling, scrapping and slow steaming are unlikely to balance the market. Linerlytica estimates that excess supply will worsen from 10% (see the 16 October 2023 Shipping [note](#)).

## EBIT likely to remain negative in 2024E

We now forecast another 15% decline in ZIM's average freight rate in 2024E, putting us 2% above the 2019 levels. With inventory destocking largely done and ZIM's fleet deliveries, we forecast 5% volume growth next year. All in all, this means that we now expect EBIT losses to continue in 2024E and 2025E despite our estimate of lower charter costs.

## No dividend likely in 2023

Given our estimate of a net loss in 2023 and ZIM's dividend policy of a 30-50% payout of net income annually (quarterly payout is 30%), we forecast no dividend from this year's earnings. We think that cash return to shareholders through special dividend or buybacks is unlikely, as ND/EBITDA increases to >4x on our 2024E estimates.

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	39.1	38.5	(5.24)	(4.75)	(4.63)
EPS Change (YoY)	670.6%	-1.6%	-113.6%	9.4%	2.4%
Dividend / Share	19.5	17.0	0	0	0
Valuation (Dec)					
P/E	0.24x	0.25x	NM	NM	NM
Dividend Yield	204%	177%	0%	0%	0%
EV / EBITDA*	0.90x	0.78x	5.07x	6.97x	6.72x
Free Cash Flow Yield*	367%	380%	-81.0%	-39.0%	7.56%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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**Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.**

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Timestamp: 19 October 2023 12:30AM EDT

19 October 2023

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	11.00	8.70
2023E EPS	-4.39	-5.24
2024E EPS	-3.28	-4.75
2025E EPS	-3.26	-4.63

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## Stock Data

Price	9.17 USD
Price Objective	8.70 USD
Date Established	19-Oct-2023
Investment Opinion	C-3-9
52-Week Range	9.05 USD-29.38 USD
Mrkt Val / Shares Out (mn)	1,149 USD / 120.2
Average Daily Value (mn)	22.04 USD
Free Float	79.3%
BofA Ticker / Exchange	ZIM / NYS
Bloomberg / Reuters	ZIM US / ZIM.N
ROE (2023E)	-12.2%
Net Dbt to Eqty (Dec2022A)	56.4%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

c = circa

GRI = generate rate increase

ND = net debt

PO = price objective

SCFI = Shanghai Containerized Freight Index

# iQprofile<sup>SM</sup> ZIM

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	10,729	12,562	5,379	4,937	5,236
EBITDA Adjusted	6,597	7,541	1,167	849	881
Depreciation & Amortization	(756)	(1,370)	(1,700)	(1,294)	(1,282)
EBIT Adjusted	5,841	6,171	(533)	(445)	(401)
Net Interest & Other Income	(157)	(109)	(229)	(295)	(322)
Tax Expense / Benefit	(1,010)	(1,398)	149	170	166
Net Income (Adjusted)	4,652	4,636	(630)	(570)	(557)
Average Fully Diluted Shares Outstanding	119	120	120	120	120

Key Cash Flow Statement Data					
Net Income (Reported)	4,640	4,619	(650)	(570)	(556)
Depreciation & Amortization	756	1,370	1,700	1,294	1,282
Change in Working Capital	(271)	115	42.6	178	6.96
Deferred Taxation Charge	0	0	0	0	0
Other CFO	845	530	11.5	385	890
<b>Cash Flow from Operations</b>	<b>5,971</b>	<b>6,110</b>	<b>1,104</b>	<b>1,288</b>	<b>1,623</b>
Capital Expenditure	(1,187)	(346)	(200)	(350)	(183)
(Acquisition) / Disposal of Investments	(1,177)	(297)	(182)	(350)	(183)
Other CFI	(979)	(1,002)	1,584	1,200	183
<b>Cash Flow from Investing</b>	<b>(3,343)</b>	<b>(1,645)</b>	<b>1,201</b>	<b>500</b>	<b>(183)</b>
Share Issue / (Repurchase)	205	0	0	0	0
Cost of Dividends Paid	(536)	(3,303)	(769)	0	0
Increase (decrease) debt	1,491	1,024	887	712	(557)
Other CFF	(2,813)	(2,697)	(2,934)	(2,303)	(1,010)
<b>Cash Flow from Financing</b>	<b>(1,653)</b>	<b>(4,976)</b>	<b>(2,815)</b>	<b>(1,590)</b>	<b>(1,567)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>975</b>	<b>(511)</b>	<b>(510)</b>	<b>197</b>	<b>(127)</b>
FX and other changes to cash	(1.97)	(9.90)	0	0	0
Change in Cash	973	(521)	(510)	197	(127)
Change in Net Debt	518	1,545	1,397	515	(430)
Net Debt (Reported)	1,780	3,325	4,723	5,238	4,808
Net Debt (Adjusted)	(534)	(281)	2,505	3,870	3,941

Key Balance Sheet Data					
Property, Plant & Equipment	4,393	5,751	6,813	7,773	7,289
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	73.8	92.9	70.3	83.3	87.2
Other Non-Current Assets	291	1,510	1,498	1,498	998
Trade Receivables	1,278	826	516	568	602
Cash & Equivalents	1,543	1,022	512	709	582
Other Current Assets	2,263	2,424	1,040	148	156
Total Assets	9,842	11,625	10,448	10,779	9,715
Long-Term Debt	2,300	2,871	3,664	4,377	3,819
Other Non-Current Liabilities	186	197	121	121	121
Short-Term Debt	1,024	1,477	1,570	1,570	1,570
Other Current Liabilities	1,733	1,185	613	802	852
Total Liabilities	5,242	5,729	5,969	6,870	6,363
Total Equity	4,600	5,896	4,479	3,909	3,352
Total Equity & Liabilities	9,842	11,625	10,448	10,779	9,715

Business Performance*					
Return On Capital Employed	93.6%	52.2%	-3.30%	-2.76%	-2.72%
Return On Equity	191%	88.5%	-12.2%	-13.6%	-15.3%
Operating Margin	54.2%	48.9%	-10.5%	-9.10%	-7.73%
Free Cash Flow (MM)	4,037	4,363	(930)	(448)	86.9

Quality of Earnings*					
Cash Realization Ratio	1.28x	1.32x	NM	NM	NM
Asset Replacement Ratio	1.57x	0.25x	0.12x	0.27x	0.14x
Tax Rate	17.9%	23.2%	18.7%	23.0%	23.0%
Net Debt/Equity	38.7%	56.4%	105%	134%	143%
Interest Cover	33.3x	25.8x	-1.52x	-1.16x	-1.03x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Shipping

## Company Description

ZIM is a global container shipping company based in Israel. The company operates an almost entirely chartered fleet and is concentrated on the transpacific trade lane. ZIM is a relatively small player with less than 2% of the global market share.

## Investment Rationale

We expect freight rates normalization to continue in 2023, driven by weaker global demand and a gradual easing of port congestion. ZIM's charter costs are likely to stay elevated in 2023 before declining in 2024 as charters are renewed. ZIM's largely chartered fleet and lower proportion of contracted volumes make it more exposed than other carriers to a normalization in the ocean market.

## Stock Data

Price to Book Value

0.3x

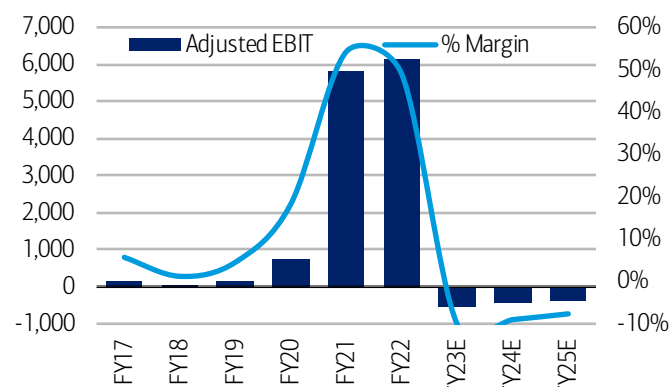
## Quarterly Earnings Estimates

	2022	2023
Q1	14.21A	-0.48A
Q2	11.09A	-1.63A
Q3	9.74A	-1.62E
Q4	3.46A	-1.51E

# Changes to estimates

## Exhibit 1: Adj. EBIT (\$m) and margin (%)

Our 2023E EBIT estimate is below the low end of company guidance

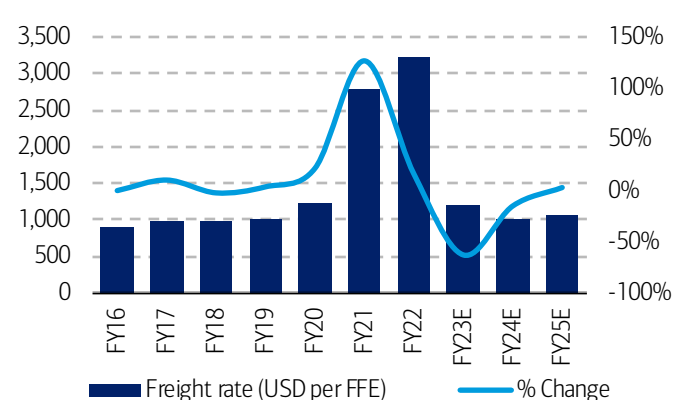


Source: BofA Global Research estimates, company report

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## Exhibit 2: Average freight rate (USD per FFE) and change (%)

We forecast ZIM's freight rates to decline further in 2024E

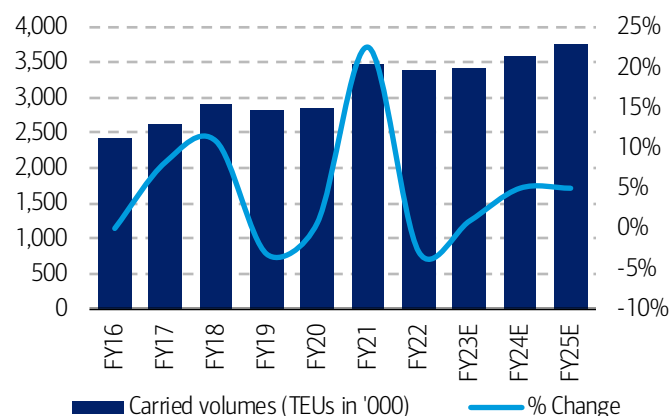


Source: BofA Global Research estimates, Company Reports

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## Exhibit 3: Carried volumes (TEU '000) and change (%)

+1% volumes growth in 2023E driven by fleet growth

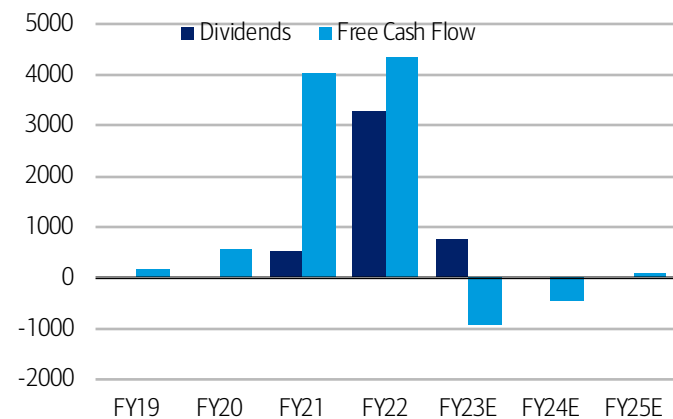


Source: BofA Global Research estimates, Company Reports

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## Exhibit 4: Dividends and Free Cash Flow (\$m)

We forecast negative FCF and no dividends in 2023E

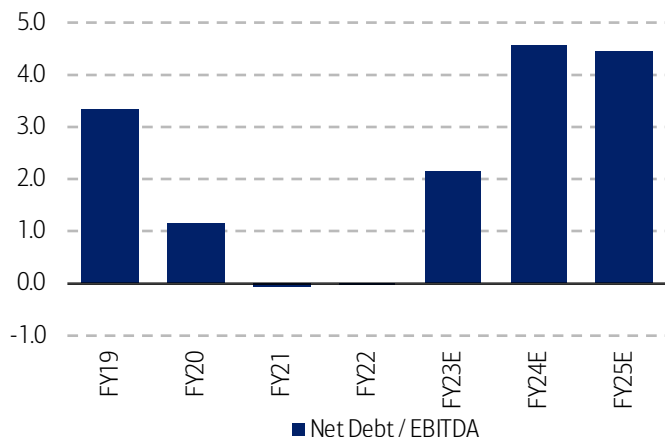


Source: BofA Global Research estimates, Company Reports

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**Exhibit 5: Net debt / EBITDA**

ND/EBITDA increases to &gt;4x in 2024E on our estimates

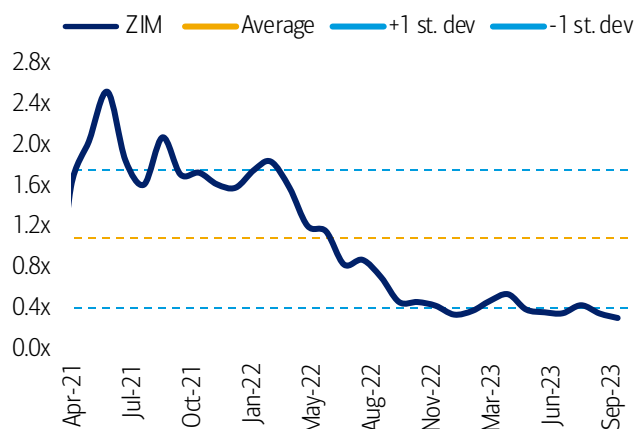


Source: BofA Global Research estimates, company report

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**Exhibit 6: ZIM's P/B valuation**

ZIM's P/B multiple has declined with freight rates



Source: BofA Global Research, Eikon

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**Exhibit 7: Changes to estimates**

We lower our 2023E adj. EBITDA by 10% mainly driven by our lower freight rate estimates

(US\$ m)	New			Old			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	5,379	4,937	5,236	5,526	5,292	5,578	-3%	-7%	-6%
Adj. EBITDA	1,167	849	881	1,293	1,075	1,088	-10%	-21%	-19%
% margin	21.7	17.2	16.8	23.4	20.3	19.5			
Adj. EBIT	-546	-445	-401	-407	-219	-193	-34%	-104%	-107%
% margin	-10.1	-9.0	-7.7	-7.4	-4.1	-3.5			
Adj. Net Income	-630	-570	-557	-527	-394	-391	-19%	-45%	-42%
% margin	-11.7	-11.6	-10.6	-9.5	-7.5	-7.0			
Adj. Diluted EPS (US\$)	-5.2	-4.7	-4.6	-4.4	-3.3	-3.3	-19%	-45%	-42%

Source: BofA Global Research estimates

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**Exhibit 8: BofA estimates versus consensus**

We are below consensus and company guidance of -\$500m to -\$100m on 2023E EBIT

	BofA			Consensus			Difference		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	5,379	4,937	5,236	5,274	5,080	5,707	2%	-3%	-8%
EBITDA	1,167	849	881	1,191	975	1,319	-2%	-13%	-33%
% margin	21.7	17.2	16.8	22.6	19.2	23.1			
EBIT	-546	-445	-401	-496	-634	-155	-10%	30%	-158%
% margin	-10.1	-9	-8	-9.4	-12.5	-2.7			
Net Income	-647	-570	-557	-576	-677	-344	-12%	16%	-62%
% margin	-12.0	-12	-10.6	-10.9	-13.3	-6.0			
EPS, reported	-5.4	-4.7	-4.6	-5.0	-6.3	-3.9	-9%	24%	-19%

Source: Bloomberg, BofA Global Research estimates

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**Exhibit 9: ZIM valuation summary**

ZIM trades on a 0.27x P/B on our 2024E estimates

**Valuation Summary**

<b>Year End 31st December (USD m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Share price (USD) (period end)	58.9	17.2	9.6	9.6	9.6
Total Shares Outstanding	119	120	120	120	120
<b>Market Cap</b>	<b>6,980</b>	<b>2,065</b>	<b>1,149</b>	<b>1,149</b>	<b>1,149</b>
Plus: Net debt	-534	-281	2,505	3,870	3,941
Less: Associates	12	22	29	29	29
Plus: Minorities	8	6	2	1	0
<b>Enterprise Value</b>	<b>6,442</b>	<b>1,769</b>	<b>3,627</b>	<b>4,991</b>	<b>5,061</b>
Plus: Net Pension Benefits	66	45	42	42	42
Plus: Provisions	28	50	53	53	53
<b>Enterprise Value inc. pensions and provisions</b>	<b>6,536</b>	<b>1,864</b>	<b>3,723</b>	<b>5,087</b>	<b>5,157</b>
Adj. EBITDA	6,597	7,541	1,167	849	881
<b>EV/EBITDA</b>	<b>1.0</b>	<b>0.2</b>	<b>3.1</b>	<b>5.9</b>	<b>5.7</b>
Adj. EBIT	5,820	6,145	-546	-445	-401
<b>EV/EBIT</b>	<b>1.1</b>	<b>0.3</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
EPS	39.1	38.5	-5.2	-4.7	-4.6
<b>P/E</b>	<b>1.5</b>	<b>0.4</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
Dividend per share	19.5	17.0	0.0	0.0	0.0
<b>Dividend yield</b>	<b>33%</b>	<b>99%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
FCF	4,037	4,363	-930	-448	87
<b>FCF yield</b>	<b>58%</b>	<b>211%</b>	<b>-81%</b>	<b>-39%</b>	<b>8%</b>
Equity	4,592	5,890	4,477	3,908	3,351
Average BV/share	22.2	43.9	43.1	34.9	30.2
<b>P/BV</b>	<b>2.65</b>	<b>0.39</b>	<b>0.22</b>	<b>0.27</b>	<b>0.32</b>
Invested Capital	4,820	8,975	9,982	9,677	9,217
<b>EV/ IC</b>	<b>1.34</b>	<b>0.20</b>	<b>0.36</b>	<b>0.52</b>	<b>0.55</b>
ROIC Pre-Tax	120.7	68.5	-5.5	-4.6	-4.3
ROIC Post-Tax	99.2	52.6	-4.4	-3.5	-3.3
<b>ROIC/WACC</b>	<b>11.92</b>	<b>6.32</b>	<b>-0.53</b>	<b>-0.43</b>	<b>-0.40</b>
ROE	190.9	88.4	-12.1	-13.6	-15.3
<b>ROE / CoE</b>	<b>22.31</b>	<b>10.33</b>	<b>-1.42</b>	<b>-1.59</b>	<b>-1.79</b>

Source: BofA Global Research estimates

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## Price objective basis & risk

### ZIM (ZIM)

Our PO of \$8.7 is based on a target P/B valuation. We apply a 0.25x P/B on our 2024 average book value estimate given our 2023-25E return on equity estimate is below the cost of equity.

Downside risks to our price objective are weaker freight rates due to lower demand, end of shipping liner capacity discipline, government restrictions on freight rates, increasing container shipping order book, higher-than-expected charter rate costs, collapse of operational agreements.

Upside risks are contract rates are reset higher than expected, stronger-than-expected demand puts more upward pressure on freight rates, new supply is less than expected resulting in better-than-expected spot rates and special dividend from cash on balance sheet.

## Analyst Certification

I, Muneeba Kayani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### EMEA - Transports & Hotels Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accor	ACRFF	AC FP	Muneeba Kayani
	DHL Group	DPSTF	DHL GY	Muneeba Kayani
	DHL Group	DHLGY	DHLGY US	Muneeba Kayani
	DSV	DSDVF	DSV DC	Muneeba Kayani
	DSV	DSDVY	DSDVY US	Muneeba Kayani
	IAG	XACDF	IAG LN	Muneeba Kayani
	IAG	BABWF	IAG SM	Muneeba Kayani
	IAG	ICAGY	ICAGY US	Muneeba Kayani
	Intercontinental Hotels Group plc	ICHGF	IHG LN	Muneeba Kayani
	Intercontinental Hotels Group plc	IHG	IHG US	Muneeba Kayani
	Mobico Group Plc	NXPGE	MCG LN	Muneeba Kayani
	Ryanair	RYAAY	RYAAY US	Muneeba Kayani
	Ryanair	RYAOF	RYA ID	Muneeba Kayani
	TUI AG	TUIFD	TUI LN	Kiranjot Grewal
	Wizz Air	WZZAF	WIZZ LN	Muneeba Kayani
<b>NEUTRAL</b>				
	bpost	BPOSF	BPOST BB	Muneeba Kayani
	InPost	INPOF	INPST NA	Muneeba Kayani
	International Distributions Services PLC	ROYMF	IDS LN	Muneeba Kayani
	Lufthansa	DLAKY	DLAKY US	Muneeba Kayani
	Lufthansa	DLAKF	LHA GY	Muneeba Kayani
	Whitbread	WTBCF	WTB LN	Muneeba Kayani
<b>UNDERPERFORM</b>				
	Air France-KLM	AFRAF	AF FP	Muneeba Kayani
	Air France-KLM	AFLYY	AFLYY US	Muneeba Kayani
	APM Maersk	AMKBF	MAERSKB DC	Muneeba Kayani
	APM Maersk	AMKBY	AMKBY US	Muneeba Kayani
	Austrian Post	OERCF	POST AV	Muneeba Kayani
	easyJet	EJTTF	EZJ LN	Muneeba Kayani
	Kuehne + Nagel	KHNGF	KNIN SW	Muneeba Kayani

## EMEA - Transports &amp; Hotels Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Kuehne + Nagel	KHNGY	KHNGY US	Muneeba Kayani
	PostNL	TNTFF	PNL NA	Muneeba Kayani
	ZIM	ZIM	ZIM US	Muneeba Kayani

**IQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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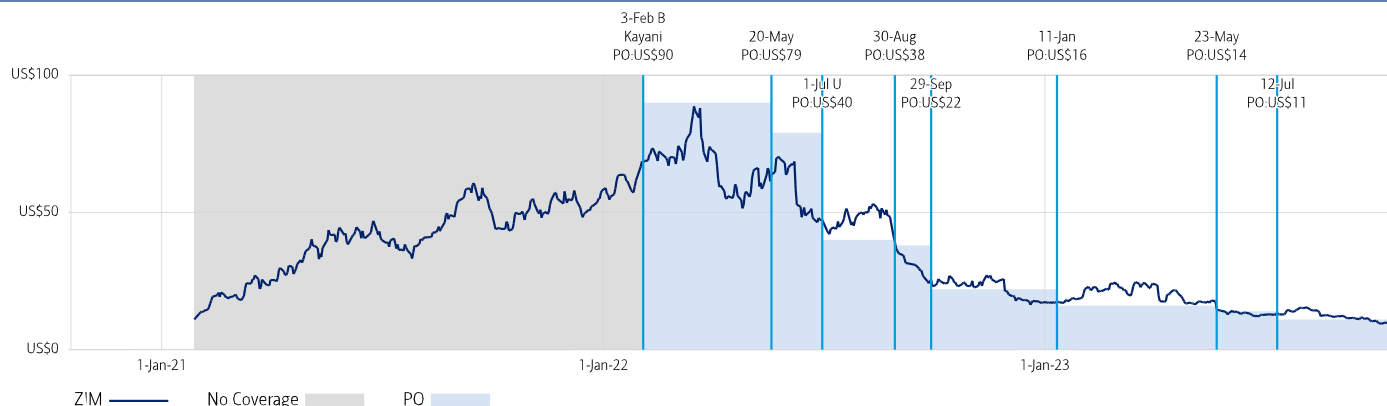
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### ZIM (ZIM) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	71	53.38%	Buy	43	60.56%
Hold	29	21.80%	Hold	13	44.83%
Sell	33	24.81%	Sell	17	51.52%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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