

ZIM

## Cutting estimates again

Reiterate Rating: UNDERPERFORM | PO: 11.00 USD | Price: 11.80 USD

## 2023 guidance maintained, higher exposure to spot rates

ZIM maintained its previously revised guidance (see [ZIM note](#)) and continues to expect a soft peak season with no recovery in demand and spot container rates in 2H23. The company is now more exposed to spot rates, with a mix split of 70/30 on Transpacific. ZIM note that whilst the recent improvement in Transpacific rates is a welcome development, other trade lanes that were more resilient (e.g. Atlantic), are now under pressure and de-stocking could extend into 2024. We do not expect a rebound in spot rates in 2H (BofAe -62% y-y decline in ZIM's avg 2023 freight rate) even if demand picks up because the addition of new vessels to the global fleet could lead to oversupply (see [Freight Follower](#) note). We reduce our 2023 EBIT loss estimate by 16% to -\$0.4bn following the 2Q miss, which puts us towards the low end of guidance and below consensus. We lower our target P/B multiple to 0.3x (from 0.35x before) to reflect our lower earnings estimates and ROE. Our PO remains unch at \$11. We stay Underperform.

## Volume growth ahead of market

2Q volume growth of +0.5% was slightly above our expectation of flat and market decline of -2%, as ZIM continues to adapt its network. We increase our 2023 volumes forecast to +1.4% (from 0.3%), which is above our Maersk forecast of -3% as ZIM will continue to chase volumes with new capacity additions in 2H23. The company now expects LSD y-y increase in volumes, lower than previous expectation of significantly higher volumes y-y, as its fleet is growing with the delivery of new vessels, and it is increasing backhaul volumes. We expect charter costs to remain high in 2023, which, along with our forecast of falling rates, results in an EBIT loss of -\$0.4bn in 2023, at the low end of the new guidance of a -\$500m to -\$100m loss.

## No dividend likely in 2023

ZIM announced there was to be no 2Q dividend. 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. The company has low leverage (1.9x 2023E ND/EBITDA), which could support a special dividend, but we have limited visibility on this.

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	39.1	38.5	(4.39)	(3.28)	(3.26)
EPS Change (YoY)	670.6%	-1.6%	-111.4%	25.2%	0.8%
Dividend / Share	19.5	17.0	0	0	0
Valuation (Dec)					
P/E	0.30x	0.31x	NM	NM	NM
Dividend Yield	165%	144%	0%	0%	0%
EV / EBITDA*	0.92x	0.81x	4.72x	5.67x	5.60x
Free Cash Flow Yield*	297%	308%	-59.5%	-20.0%	-18.1%

\* 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: 30 August 2023 12:30AM EDT

30 August 2023

## Equity

## Key Changes

(US\$)	Previous	Current
2023E EPS	-3.87	-4.39
2024E EPS	-2.61	-3.28
2025E EPS	-2.80	-3.26

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## Stock Data

Price	11.80 USD
Price Objective	11.00 USD
Date Established	12-Jul-2023
Investment Opinion	C-3-9
52-Week Range	11.72 USD-40.86 USD
Mrkt Val / Shares Out (mn)	1,419 USD / 120.2
Average Daily Value (mn)	32.51 USD
Free Float	79.3%
BofA Ticker / Exchange	ZIM / NYS
Bloomberg / Reuters	ZIM US / ZIM.N
ROE (2023E)	-10.1%
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"](#).

SCFI = Shanghai Containerized Freight Index

GRI = Generate rate increase

# iQprofile<sup>SM</sup> ZIM

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	10,729	12,562	5,526	5,292	5,578
EBITDA Adjusted	6,597	7,541	1,293	1,075	1,088
Depreciation & Amortization	(756)	(1,370)	(1,700)	(1,294)	(1,282)
EBIT Adjusted	5,841	6,171	(407)	(219)	(193)
Net Interest & Other Income	(157)	(109)	(229)	(293)	(315)
Tax Expense / Benefit	(1,010)	(1,398)	126	118	117
Net Income (Adjusted)	4,652	4,636	(527)	(394)	(391)
Average Fully Diluted Shares Outstanding	119	120	120	120	120
<b>Key Cash Flow Statement Data</b>					
Net Income (Reported)	4,640	4,619	(548)	(394)	(391)
Depreciation & Amortization	756	1,370	1,700	1,294	1,282
Change in Working Capital	(271)	115	25.7	167	10.0
Deferred Taxation Charge	0	0	0	0	0
Other CFO	845	530	11.6	385	390
<b>Cash Flow from Operations</b>	<b>5,971</b>	<b>6,110</b>	<b>1,190</b>	<b>1,453</b>	<b>1,291</b>
Capital Expenditure	(1,187)	(346)	(200)	(350)	(195)
(Acquisition) / Disposal of Investments	(1,177)	(297)	(182)	(350)	(195)
Other CFI	(979)	(1,002)	1,584	1,200	195
<b>Cash Flow from Investing</b>	<b>(3,343)</b>	<b>(1,645)</b>	<b>1,201</b>	<b>500</b>	<b>(195)</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>(424)</b>	<b>362</b>	<b>(471)</b>
FX and other changes to cash	(1.97)	(9.90)	0	0	0
Change in Cash	973	(521)	(424)	362	(471)
Change in Net Debt	518	1,545	1,311	350	(86.3)
Net Debt (Reported)	1,780	3,325	4,637	4,987	4,900
Net Debt (Adjusted)	(534)	(281)	2,420	3,620	3,533

<b>Key Balance Sheet Data</b>					
Property, Plant & Equipment	4,393	5,751	6,813	7,773	7,301
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	73.8	92.9	70.3	83.3	87.8
Other Non-Current Assets	291	1,510	1,498	1,498	1,498
Trade Receivables	1,278	826	537	609	642
Cash & Equivalents	1,543	1,022	598	960	489
Other Current Assets	2,263	2,424	1,047	158	166
Total Assets	9,842	11,625	10,563	11,080	10,183
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	625	825	876
Total Liabilities	5,242	5,729	5,981	6,893	6,387
Total Equity	4,600	5,896	4,582	4,187	3,796
Total Equity & Liabilities	9,842	11,625	10,563	11,080	10,183

<b>Business Performance*</b>					
Return On Capital Employed	93.6%	52.2%	-2.28%	-0.97%	-0.92%
Return On Equity	191%	88.5%	-10.1%	-9.00%	-9.80%
Operating Margin	54.2%	48.9%	-7.97%	-4.21%	-3.54%
Free Cash Flow (MM)	4,037	4,363	(844)	(283)	(256)

<b>Quality of Earnings*</b>					
Cash Realization Ratio	1.28x	1.32x	NM	NM	NM
Asset Replacement Ratio	1.57x	0.25x	0.12x	0.27x	0.15x
Tax Rate	17.9%	23.2%	18.8%	23.0%	23.0%
Net Debt/Equity	38.7%	56.4%	101%	119%	129%
Interest Cover	33.3x	25.8x	-1.16x	-0.57x	-0.49x

\* 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

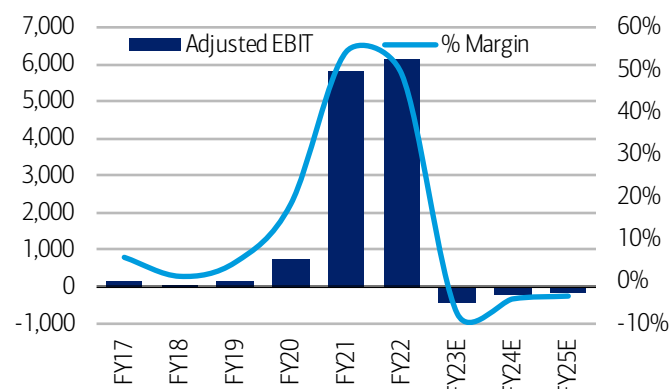
## Quarterly Earnings Estimates

	2022	2023
Q1	14.21A	-0.48A
Q2	11.09A	-1.63A
Q3	9.74A	-0.99A
Q4	3.46A	-1.28E

# Changes to estimates

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

We forecast negative EBIT in 2023E, at the low end of guidance

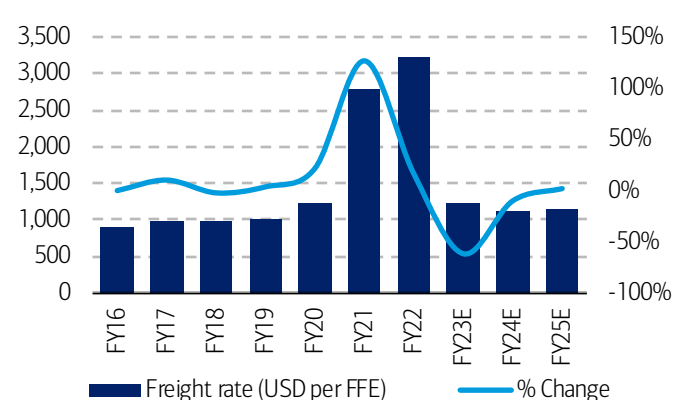


Source: BofA Global Research estimates, company report

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

We do not expect a rebound in freight rates in 2H

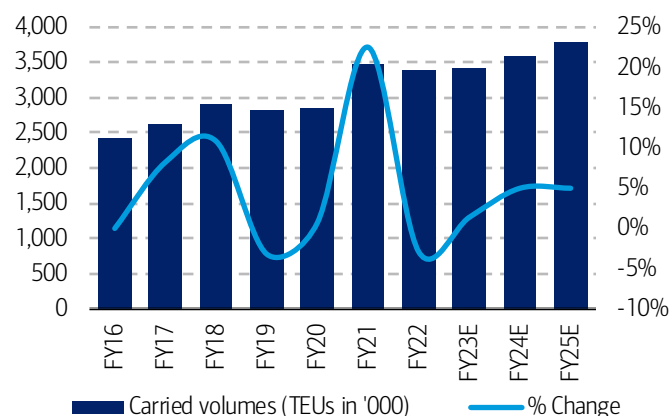


Source: BofA Global Research estimates, Company Reports

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

+1.4% volumes growth in 2023E driven by fleet growth

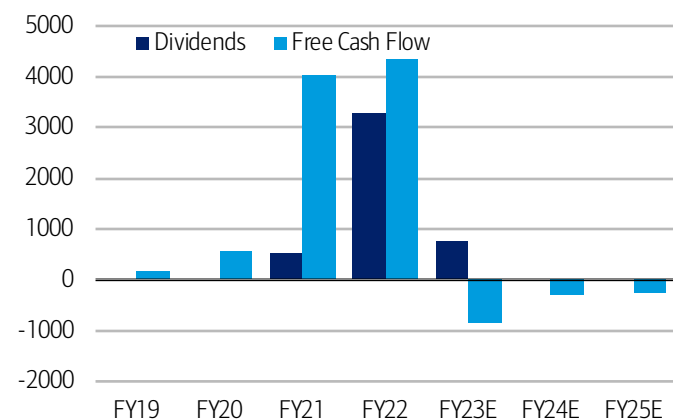


Source: BofA Global Research estimates, Company Reports

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

We forecast negative FCF and no dividends in 2023E

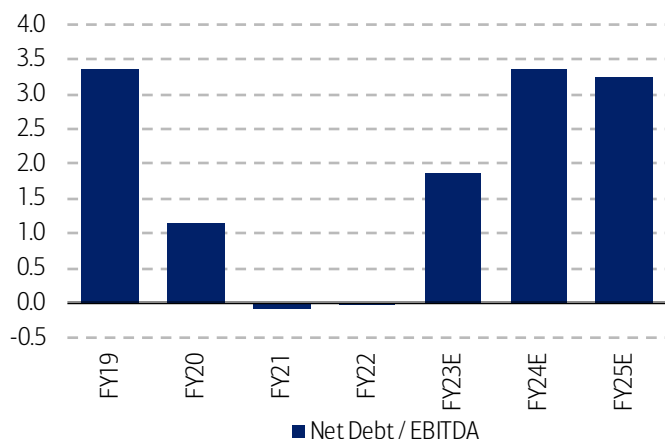


Source: BofA Global Research estimates, Company Reports

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**Exhibit 5: Net debt / EBITDA**

ND/EBITDA remains under 3.5x on our estimates

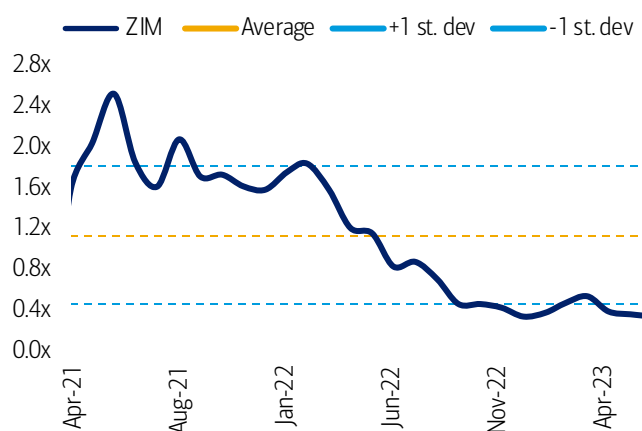


Source: BofA Global Research estimates, company report

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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 16%, following the 2Q miss

(US\$ m)	New			Old			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	5,526	5,292	5,578	5,621	5,395	5,671	-2%	-2%	-2%
Adj. EBITDA	1,293	1,075	1,088	1,293	1,148	1,145	0%	-6%	-5%
% margin	23.4	20.3	19.5	23.0	21.3	20.2			
Adj. EBIT	-421	-219	-193	-363	-107	-107	-16%	-105%	-81%
% margin	-7.6	-4.1	-3.5	-6.5	-2.0	-1.9			
Adj. Net Income	-527	-394	-391	-465	-314	-337	-13%	-26%	-16%
% margin	-9.5	-7.5	-7.0	-8.3	-5.8	-5.9			
Adj. Diluted EPS (US\$)	-4.4	-3.3	-3.3	-3.9	-2.6	-2.8	-13%	-26%	-16%

Source: BofA Global Research estimates

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**Exhibit 8: BofA estimates vs consensus**

We are below consensus on 2023E EBIT

	BofA			Consensus			Difference		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	5,526	5,292	5,578	5,485	5,361	5,929	1%	-1%	-6%
EBITDA	1,293	1,075	1,088	1,293	1,205	1,565	0%	-11%	-30%
% margin	23.4	20.3	19.5	23.6	22.5	26.4			
EBIT	-421	-219	-193	-401	-469	-78	-5%	53%	-149%
% margin	-7.6	-4	-3	-7.3	-8.7	-1.3			
Net Income	-544	-394	-391	-495	-534	-276	-10%	26%	-42%
% margin	-9.8	-7	-7.0	-9.0	-10.0	-4.7			
EPS, reported	-4.6	-3.3	-3.3	-4.1	-4.4	-1.5	-12%	26%	-119%

Source: Bloomberg, BofA Global Research estimates

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**Exhibit 9: ZIM valuation summary**

ZIM trades on a 0.32x 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	11.8	11.8	11.8
Total Shares Outstanding	119	120	120	120	120
<b>Market Cap</b>	<b>6,980</b>	<b>2,065</b>	<b>1,418</b>	<b>1,418</b>	<b>1,418</b>
Plus: Net debt	-534	-281	2,420	3,620	3,533
Less: Associates	12	22	29	29	29
Plus: Minorities	8	6	2	1	1
<b>Enterprise Value</b>	<b>6,442</b>	<b>1,769</b>	<b>3,810</b>	<b>5,010</b>	<b>4,923</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>3,906</b>	<b>5,106</b>	<b>5,019</b>
Adj. EBITDA	6,597	7,541	1,293	1,075	1,088
<b>EV/EBITDA</b>	<b>1.0</b>	<b>0.2</b>	<b>2.9</b>	<b>4.7</b>	<b>4.5</b>
Adj. EBIT	5,820	6,145	-421	-219	-193
<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	-4.4	-3.3	-3.3
<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	-844	-283	-256
<b>FCF yield</b>	<b>58%</b>	<b>211%</b>	<b>-60%</b>	<b>-20%</b>	<b>-18%</b>
Equity	4,592	5,890	4,580	4,186	3,795
Average BV/share	22.2	43.9	43.6	36.5	33.2
<b>P/BV</b>	<b>2.65</b>	<b>0.39</b>	<b>0.27</b>	<b>0.32</b>	<b>0.36</b>
Invested Capital	4,820	8,975	9,994	9,710	9,512
<b>EV/IC</b>	<b>1.34</b>	<b>0.20</b>	<b>0.38</b>	<b>0.52</b>	<b>0.52</b>
ROIC Pre-Tax	120.7	68.5	-4.2	-2.3	-2.0
ROIC Post-Tax	99.2	52.6	-3.4	-1.7	-1.6
<b>ROIC/WACC</b>	<b>11.92</b>	<b>6.32</b>	<b>-0.41</b>	<b>-0.21</b>	<b>-0.19</b>
ROE	190.9	88.4	-10.1	-9.0	-9.8
<b>ROE / CoE</b>	<b>22.31</b>	<b>10.33</b>	<b>-1.18</b>	<b>-1.05</b>	<b>-1.15</b>

Source: BofA Global Research estimates

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## Price objective basis & risk

### ZIM (ZIM)

Our PO of \$11 is based on a target P/B valuation. We apply a 0.3x 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>				
	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
	Mobico Group Plc	NXPGF	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>				
	APM Maersk	AMKBF	MAERSKB DC	Muneeba Kayani
	APM Maersk	AMKBY	AMKBY US	Muneeba Kayani
	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
<b>UNDERPERFORM</b>				
	Air France-KLM	AFRAF	AF FP	Muneeba Kayani
	Air France-KLM	AFLYY	AFLYY US	Muneeba Kayani
	Austrian Post	OERCF	POST AV	Muneeba Kayani
	easyJet	EJTTF	EZJ LN	Muneeba Kayani
	Kuehne + Nagel	KHNGF	KNIN SW	Muneeba Kayani
	Kuehne + Nagel	KHNGY	KHNGY US	Muneeba Kayani
	PostNL	TNTFF	PNL NA	Muneeba Kayani
	ZIM	ZIM	ZIM US	Muneeba Kayani

## EMEA - Transports &amp; Hotels Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**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

Basic EBIT + Depreciation + Amortization

**IQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of IQmethod are: A consistently structured, detailed, and transparent methodology; Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

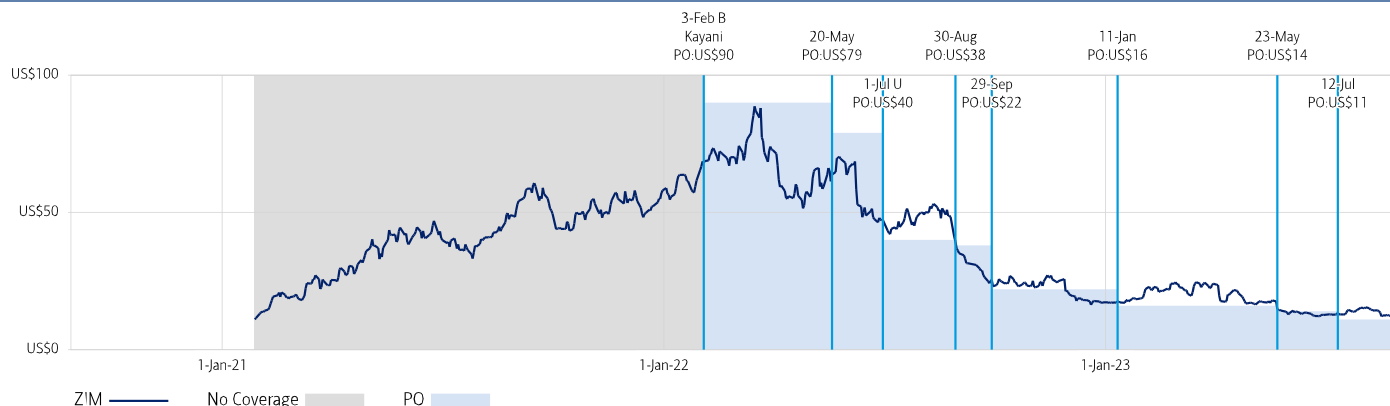
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# Disclosures

## Important Disclosures

### 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 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	72	52.94%	Buy	42	58.33%
Hold	29	21.32%	Hold	13	44.83%
Sell	35	25.74%	Sell	17	48.57%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<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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