

ZIM

## More cautious than 2023 guidance

Reiterate Rating: UNDERPERFORM | PO: 16.00 USD | Price: 23.86 USD

### Our 2023E EBITDA below the low end of guidance

ZIM's 2023 EBITDA guidance of \$1.8-2.2bn assumes a recovery in both demand and spot container rates in 2H. We do not expect a rebound in spot rates in 2H even if demand picks up because the upcoming addition of new vessels to the global fleet could lead to oversupply (see [Freight Follower](#) note for global order book). 4Q EBITDA was above our and consensus estimates, largely driven by a better-than-expected contribution from "Other revenue" that includes car carriers. We raise our 2023 EBITDA estimate by 28% to \$1.6bn mainly due to a continued contribution from the car carrier business. This puts us below the low end of guidance and 20% below consensus. Our PO increases slightly to \$16 because of our higher estimates. The SCFI has continued to decline this year following the sharp drop in 4Q22, with the spot rate now -80% y-y. ZIM's largely chartered fleet and lower proportion of contracted volumes make it more exposed than other carriers to declining spot rates, in our view. We stay Underperform.

### 2H spot rate rebound is optimistic, in our view

ZIM expects a recovery in spot rates in 2H but we are cautious given the risk of market oversupply (BofAe c60% y-y decline in ZIM's average 2023 freight rate). ZIM said its contract rates have been re-set lower ahead of the Transpacific contracting period (on 1 May). The 4Q volume decline was better than expected at -4%, and ahead of the market decline of -9%. The company guides to 2023 volumes significantly above 2022 levels as its fleet grows with the delivery of new vessels (BofAe +5%). The total fleet was 150 vessels at end-2022, with 58 vessels up for renewal and 41 deliveries in 2023-24. We forecast charter costs to remain high in 2023, which, along with our forecast of falling rates, results in our forecast of negative EBIT in 2023, below guidance of \$100-500m.

### Special dividend in 2023?

ZIM announced a 4Q dividend per share of \$6.4, well above our expectations. 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 a minimal dividend from this year's earnings. ZIM has a strong balance sheet with a net cash position at end-2022, which could support a special dividend, but we have limited visibility.

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	39.1	38.5	(1.69)	1.42	1.51
EPS Change (YoY)	670.6%	-1.6%	-104.4%	184.1%	6.2%
Dividend / Share	19.5	17.0	0.02	0.43	0.45
Valuation (Dec)					
P/E	0.61x	0.62x	NM	16.8x	15.8x
Dividend Yield	81.7%	71.0%	0.07%	1.80%	1.91%
EV / EBITDA*	1.20x	1.05x	5.12x	5.09x	5.03x
Free Cash Flow Yield*	147%	152%	-2.65%	2.81%	9.61%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

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**Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 17 March 2023 12:09PM EDT

17 March 2023

#### Equity

##### Key Changes

(US\$)	Previous	Current
Price Obj.	15.50	16.00
2023E EPS	-3.06	-1.69
2024E EPS	-0.57	1.42
2025E EPS	0.51	1.51
2023E DPS	0	0.02

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#### Stock Data

Price	23.86 USD
Price Objective	16.00 USD
Date Established	17-Mar-2023
Investment Opinion	C-3-8
52-Week Range	16.23 USD-91.23 USD
Mrkt Val / Shares Out (mn)	2,868 USD / 120.2
Average Daily Value (mn)	124.71 USD
Free Float	78.1%
BofA Ticker / Exchange	ZIM / NYS
Bloomberg / Reuters	ZIM US / ZIM.N
ROE (2023E)	-3.8%
Net Dbt to Eqty (Dec2022A)	56.4%
ESGMeter <sup>TM</sup>	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

# iQprofile<sup>SM</sup> ZIM

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	10,729	12,562	6,089	5,843	6,144
EBITDA Adjusted	6,597	7,541	1,548	1,556	1,575
Depreciation & Amortization	(756)	(1,370)	(1,705)	(1,215)	(1,212)
EBIT Adjusted	5,841	6,171	(157)	341	362
Net Interest & Other Income	(157)	(109)	(108)	(118)	(126)
Tax Expense / Benefit	(1,010)	(1,398)	60.9	(51.2)	(54.4)
Net Income (Adjusted)	4,652	4,636	(204)	172	182
Average Fully Diluted Shares Outstanding	119	120	120	120	120

<b>Key Cash Flow Statement Data</b>					
Net Income (Reported)	4,640	4,619	(204)	171	182
Depreciation & Amortization	756	1,370	1,705	1,215	1,212
Change in Working Capital	(271)	115	159	13.5	30.9
Deferred Taxation Charge	0	0	0	0	0
Other CFO	845	530	237	234	242
<b>Cash Flow from Operations</b>	<b>5,971</b>	<b>6,110</b>	<b>1,897</b>	<b>1,634</b>	<b>1,667</b>
Capital Expenditure	(1,187)	(346)	(200)	(350)	(215)
(Acquisition) / Disposal of Investments	(1,177)	(297)	(200)	(350)	(215)
Other CFI	(979)	(1,002)	200	350	215
<b>Cash Flow from Investing</b>	<b>(3,343)</b>	<b>(1,645)</b>	<b>(200)</b>	<b>(350)</b>	<b>(215)</b>
Share Issue / (Repurchase)	205	0	0	0	0
Cost of Dividends Paid	(536)	(3,303)	(769)	(14.8)	(52.2)
Increase (decrease) debt	1,491	1,024	826	785	(421)
Other CFF	(2,813)	(2,697)	(2,605)	(2,065)	(843)
<b>Cash Flow from Financing</b>	<b>(1,653)</b>	<b>(4,976)</b>	<b>(2,547)</b>	<b>(1,295)</b>	<b>(1,316)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>975</b>	<b>(511)</b>	<b>(850)</b>	<b>(11.1)</b>	<b>135</b>
FX and other changes to cash	(1.97)	(9.90)	0	0	0
Change in Cash	973	(521)	(850)	(11.1)	135
Change in Net Debt	518	1,545	1,676	796	(556)
Net Debt (Reported)	1,780	3,325	5,002	5,797	5,241
Net Debt (Adjusted)	(534)	(281)	1,395	2,191	1,635

<b>Key Balance Sheet Data</b>					
Property, Plant & Equipment	4,393	5,751	6,633	7,590	7,194
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	73.8	92.9	73.8	82.9	84.1
Other Non-Current Assets	291	1,510	1,510	1,510	1,510
Trade Receivables	1,278	826	758	672	707
Cash & Equivalents	1,543	1,022	172	161	296
Other Current Assets	2,263	2,424	2,313	2,304	2,307
Total Assets	9,842	11,625	11,460	12,319	12,097
Long-Term Debt	2,300	2,871	3,697	4,481	4,060
Other Non-Current Liabilities	186	197	197	197	197
Short-Term Debt	1,024	1,477	1,477	1,477	1,477
Other Current Liabilities	1,733	1,185	1,166	1,085	1,154
Total Liabilities	5,242	5,729	6,536	7,239	6,887
Total Equity	4,600	5,896	4,923	5,080	5,210
Total Equity & Liabilities	9,842	11,625	11,460	12,319	12,097

<b>Business Performance*</b>					
Return On Capital Employed	93.6%	52.2%	-0.21%	3.27%	3.32%
Return On Equity	191%	88.5%	-3.77%	3.43%	3.54%
Operating Margin	54.2%	48.9%	-2.64%	5.76%	5.83%
Free Cash Flow (MM)	4,037	4,363	(75.9)	80.5	275

<b>Quality of Earnings*</b>					
Cash Realization Ratio	1.28x	1.32x	NM	9.52x	9.15x
Asset Replacement Ratio	1.57x	0.25x	0.12x	0.29x	0.18x
Tax Rate	17.9%	23.2%	23.0%	23.0%	23.0%
Net Debt/Equity	38.7%	56.4%	102%	114%	101%
Interest Cover	33.3x	25.8x	-0.66x	1.46x	1.50x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 83.

## 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 0.6x

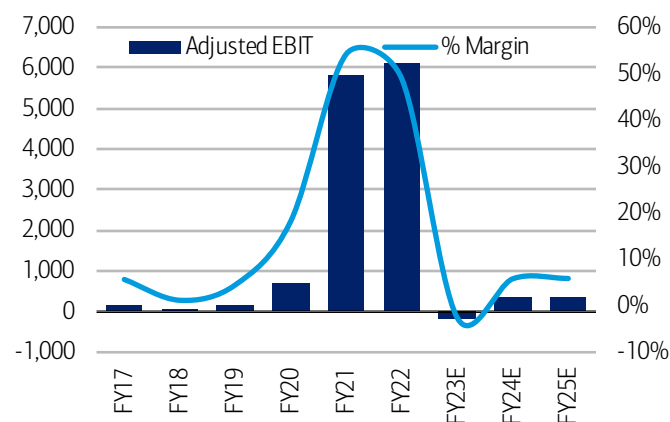
## Quarterly Earnings Estimates

	2022	2023
Q1	14.21A	-0.04E
Q2	11.09A	-0.71E
Q3	9.74A	-0.96E
Q4	3.46A	0.02E

# Changes to estimates

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

We forecast negative EBIT in 2023E, below guidance

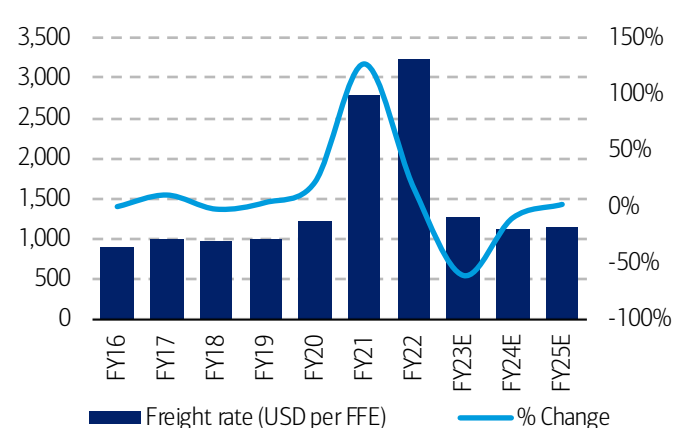


Source: BofA Global Research estimates, company report

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

We expect a sharp decline in freight rates in 2023E

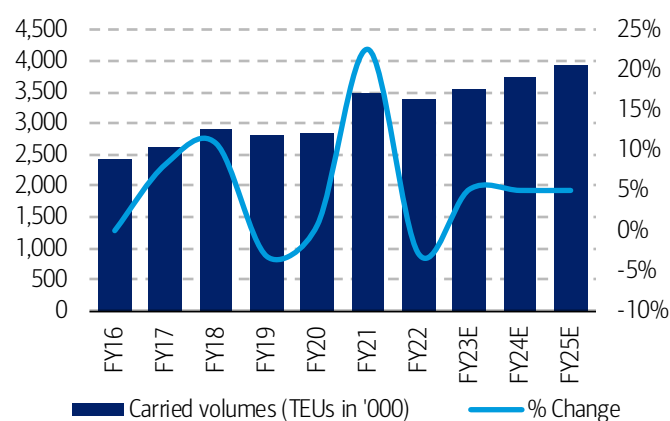


Source: BofA Global Research estimates, Company Reports

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

Volume growth of 5% in 2023E as fleet grows

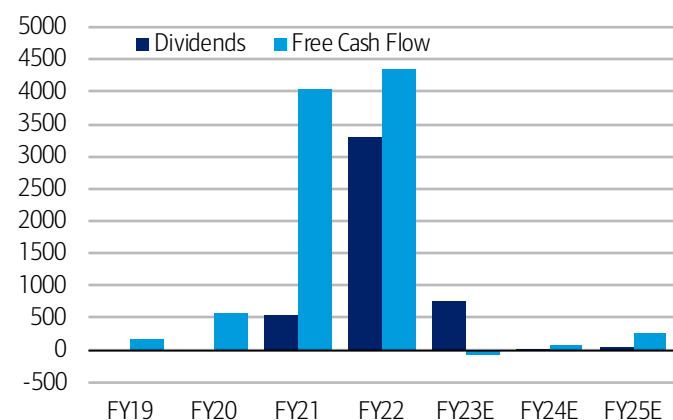


Source: BofA Global Research estimates, Company Reports

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

We forecast a big drop in FCF and dividends in 2023E

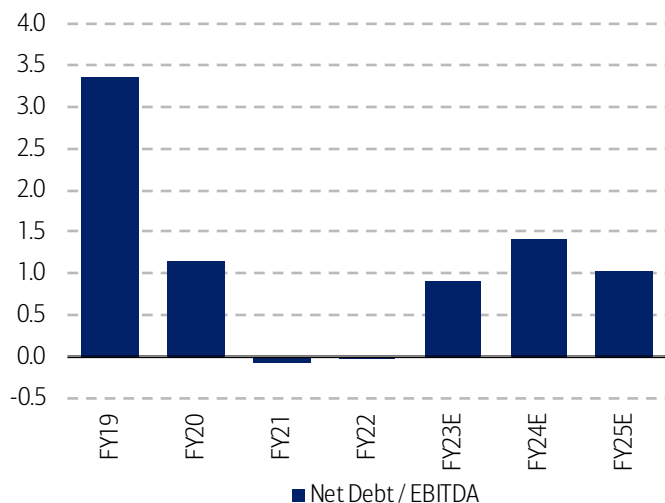


Source: BofA Global Research estimates, Company Reports

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**Exhibit 5: Net debt / EBITDA**

ND/EBITDA remains under 1.5x on our estimates



Source: BofA Global Research estimates, company report

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**Exhibit 7: Changes to estimates**

We raise our 2023E adj. EBITDA by 28% to reflect higher other revenue

(US\$ m)	New			Old			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	6,089	5,843	6,144	4,913	5,158	5,524	24%	13%	11%
Adj. EBITDA	1,548	1,556	1,575	1,207	1,435	1,559	28%	8%	1%
% margin	25.4	26.6	25.6	24.6	27.8	28.2			
Adj. EBIT	-157	341	362	-387	75	274	60%	NM	32%
% margin	-2.6	5.8	5.9	-7.9	1.4	5.0			
Adj. Net Income	-204	172	182	-368	-69	61	45%	NM	NM
% margin	-3.3	2.9	3.0	-7.5	-1.3	1.1			
Adj. Diluted EPS (US\$)	-1.7	1.4	1.5	-3.1	-0.6	0.5	45%	NM	NM
DPS (US\$)	0.0	0.4	0.5	0.0	0.0	0.2	NM	NM	NM

Source: BofA Global Research estimates

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**Exhibit 8: BofA estimates vs consensus**

We are significantly below consensus on 2023E EBIT

	BofA			Consensus			Difference		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	6,089	5,843	6,144	6,574	6,451	7,333	-7%	-9%	-16%
EBITDA	1,548	1,556	1,575	1,941	1,608	1,409	-20%	-3%	12%
% margin	25.4	26.6	25.6	29.5	24.9	19.2			
EBIT	-157	341	362	271	-26	-378	-158%	NM	NM
% margin	-2.6	6	5.9	4.1	-0.4	-5.2			
Net Income	-204	172	182	55	-188	-410	NM	NM	NM
% margin	-3.3	3	3.0	0.8	-2.9	-5.6			
EPS, reported	-1.7	1.4	1.5	0.5	-1.6	-3.4	NM	NM	NM
DPS	0.0	0.4	0.5	1.2	0.6	NA	-99%	-25%	NM

**Exhibit 8: BofA estimates vs consensus**

We are significantly below consensus on 2023E EBIT

	BofA	Consensus	Difference
Source: Bloomberg, BofA Global Research estimates			
BofA GLOBAL RESEARCH			

**Exhibit 9: ZIM valuation summary**

ZIM trades on a 0.55x P/B on our 2023E estimates

**Valuation Summary**

Year End 31st December (USD m)	FY21	FY22	FY23E	FY24E	FY25E
Share price (USD) (period end)	58.9	17.2	24.5	24.5	24.5
Total Shares Outstanding	119	120	120	120	120
<b>Market Cap</b>	<b>6,980</b>	<b>2,065</b>	<b>2,947</b>	<b>2,947</b>	<b>2,947</b>
Plus: Net debt	-534	-281	1,395	2,191	1,635
Less: Associates	12	22	22	22	22
Plus: Minorities	8	6	6	6	6
<b>Enterprise Value</b>	<b>6,442</b>	<b>1,769</b>	<b>4,327</b>	<b>5,123</b>	<b>4,567</b>
Plus: Net Pension Benefits	66	45	45	45	45
Plus: Provisions	28	50	50	50	50
<b>Enterprise Value inc. pensions and provisions</b>	<b>6,536</b>	<b>1,864</b>	<b>4,422</b>	<b>5,218</b>	<b>4,662</b>
Adj. EBITDA	6,597	7,541	1,548	1,556	1,575
<b>EV/EBITDA</b>	<b>1.0</b>	<b>0.2</b>	<b>2.8</b>	<b>3.3</b>	<b>2.9</b>
Adj. EBIT	5,820	6,145	-157	341	362
<b>EV/EBIT</b>	<b>1.1</b>	<b>0.3</b>	<b>-27.6</b>	<b>15.0</b>	<b>12.6</b>
EPS	39.1	38.5	-1.7	1.4	1.5
<b>P/E</b>	<b>1.5</b>	<b>0.4</b>	<b>-14.5</b>	<b>17.2</b>	<b>16.2</b>
Dividend per share	19.5	17.0	0.0	0.4	0.5
<b>Dividend yield</b>	<b>33%</b>	<b>99%</b>	<b>0%</b>	<b>2%</b>	<b>2%</b>
FCF	4,037	4,363	-76	80	275
<b>FCF yield</b>	<b>58%</b>	<b>211%</b>	<b>-3%</b>	<b>3%</b>	<b>9%</b>
Equity	4,592	5,890	4,917	5,074	5,203
Average BV/share	22.2	43.9	45.0	41.6	42.8
<b>P/BV</b>	<b>2.65</b>	<b>0.39</b>	<b>0.55</b>	<b>0.59</b>	<b>0.57</b>
Invested Capital	4,820	8,975	10,585	11,319	11,583
<b>EV/ IC</b>	<b>1.34</b>	<b>0.20</b>	<b>0.41</b>	<b>0.45</b>	<b>0.39</b>
ROIC Pre-Tax	120.7	68.5	-1.5	3.0	3.1
ROIC Post-Tax	99.2	52.6	-1.1	2.3	2.4
<b>ROIC/WACC</b>	<b>11.92</b>	<b>6.32</b>	<b>-0.14</b>	<b>0.28</b>	<b>0.29</b>
ROE	190.9	88.4	-3.8	3.4	3.5
<b>ROE / CoE</b>	<b>22.31</b>	<b>10.33</b>	<b>-0.44</b>	<b>0.40</b>	<b>0.41</b>

Source: BofA Global Research estimates

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## Price objective basis & risk

### ZIM (ZIM)

Our PO of \$16 is based on a target P/B valuation. We apply a 0.35x P/B on our 2023 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 - Transport Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Deutsche Post DHL	DPSTF	DPW GY	Muneeba Kayani
	Deutsche Post DHL	DPSGY	DPSGY 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
	National Express Group Plc	NXPGE	NEX LN	Muneeba Kayani
	Ryanair	RYAAY	RYAAY US	Muneeba Kayani
	Ryanair	RYAOF	RYA ID	Muneeba Kayani
	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



## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **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

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **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**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **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 valuations. 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.

**IQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

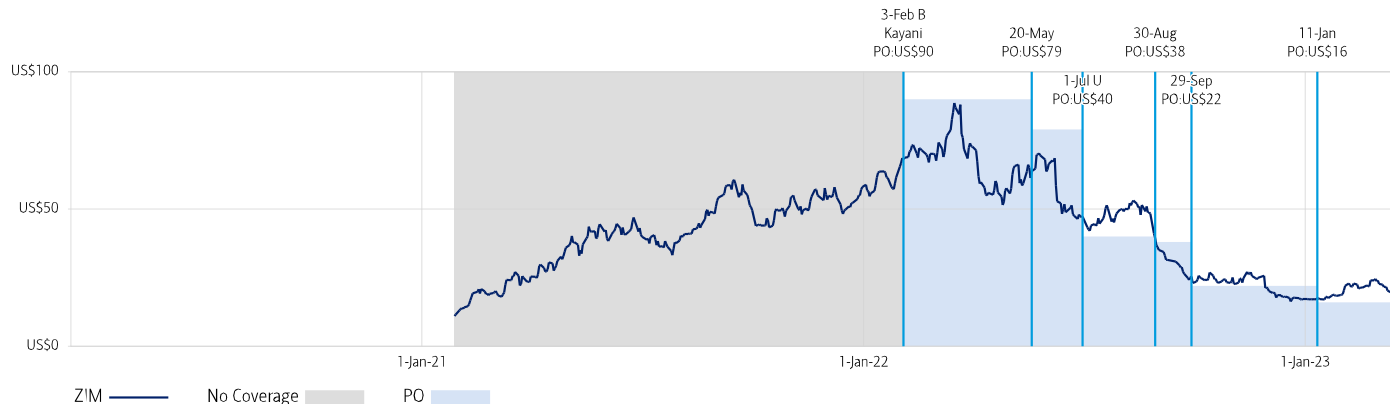
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# Disclosures

## Important Disclosures

### ZIM (ZIM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	51.15%	Buy	40	59.70%
Hold	26	19.85%	Hold	15	57.69%
Sell	38	29.01%	Sell	19	50.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

<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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