

ZIM

4Q23 Preview – benefits from Red Sea

Reiterate Rating: UNDERPERFORM | PO: 11.00 USD | Price: 13.80 USD

Near term benefit, but short-lived; PO to \$11, stay U/P

Supply chain disruptions caused by events in Red Sea have increased freight spot rates by more than 100% since mid-December, which is set to benefit the shippers. We expect spot rates to peak around Chinese New Year (CNY) followed by a gradual decline. We see ZIM's realised freight rates increasing c40% sequentially in 1Q24, before declining throughout rest of year. We raise our 2024E EBITDA estimate by 34% to \$1.1bn. Our 4Q23 numbers are largely unchanged. PO increases to \$11 (from \$10.5), because of our higher estimate applied to unchanged target multiple of 0.55x 2024E P/B. With 20% downside to our PO, we stay at Underperform.

Realised rates higher from Red Sea disruption

More than 70% of container liner capacity is now diverted away from the Red Sea, leading ocean spot rates to more than double since mid-December. In addition, drought conditions in Panama Canal have not seen a significant improvement and are expected to continue through the dry season until mid-May. We now forecast a +2% y-y increase in ZIM's average freight rate in 2024E (from -5% decline, previously), putting us 22% above 2019 levels. With inventory destocking largely done and ZIM's fleet deliveries, we continue to forecast +5% volume growth this year. All in all, this means we now expect EBIT to be a positive \$254m (from breakeven previously).

No dividend likely from 2023 earnings

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 2023 earnings. We think cash return to shareholders through special dividends or buybacks is unlikely as ND/EBITDA increases to c3x on our 2024E estimates

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted Diluted)	39.1	38.5	(6.18)	(0.22)	(0.21)
EPS Change (YoY)	670.6%	-1.6%	-116.0%	96.5%	1.7%
Dividend / Share	19.5	17.0	0	0	0
Valuation (Dec)					
P/E	0.35x	0.36x	NM	NM	NM
Dividend Yield	141%	123%	0%	0%	0%
EV / EBITDA*	0.94x	0.82x	6.04x	5.54x	5.72x
Free Cash Flow Yield*	254%	263%	-40.7%	2.70%	38.5%

* For full definitions of *IQmethod™* measures, see page 7.

26 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	10.50	11.00
2024E EPS	-2.04	-0.22
2025E EPS	-0.22	-0.21

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Stock Data

Price	13.80 USD
Price Objective	11.00 USD
Date Established	26-Jan-2024
Investment Opinion	C-3-9
52-Week Range	6.39 USD-25.12 USD
Mrkt Val / Shares Out (mn)	1,659 USD / 120.2
Average Daily Value (mn)	140.50 USD
Free Float	79.3%
BofA Ticker / Exchange	ZIM / NYS
Bloomberg / Reuters	ZIM US / ZIM.N
ROE (2023E)	-17.9%
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"](#).

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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: 26 January 2024 12:31AM EST

iQprofileSM ZIM

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Sales	10,729	12,562	5,197	5,480	5,380
EBITDA Adjusted	6,597	7,541	1,024	1,116	1,080
Depreciation & Amortization	(756)	(1,370)	(3,544)	(862)	(802)
EBIT Adjusted	5,841	6,171	(2,520)	254	277
Net Interest & Other Income	(157)	(109)	(284)	(288)	(310)
Tax Expense / Benefit	(1,010)	(1,398)	172	7.74	7.61
Net Income (Adjusted)	4,652	4,636	(742)	(25.9)	(25.5)
Average Fully Diluted Shares Outstanding	119	120	120	120	120

Key Cash Flow Statement Data					
Net Income (Reported)	4,640	4,619	(2,707)	(25.9)	(25.4)
Depreciation & Amortization	756	1,370	3,544	862	802
Change in Working Capital	(271)	115	154	108	3.02
Deferred Taxation Charge	0	0	0	0	0
Other CFO	845	530	53.2	402	915
Cash Flow from Operations	5,971	6,110	1,044	1,346	1,695
Capital Expenditure	(1,187)	(346)	(200)	(350)	(188)
(Acquisition) / Disposal of Investments	(1,177)	(297)	(179)	(350)	(188)
Other CFI	(979)	(1,002)	1,585	1,200	188
Cash Flow from Investing	(3,343)	(1,645)	1,206	500	(188)
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	723	677	(311)
Other CFF	(2,813)	(2,697)	(2,628)	(1,906)	(858)
Cash Flow from Financing	(1,653)	(4,976)	(2,674)	(1,229)	(1,169)
Total Cash Flow (CFO + CFI + CFF)	975	(511)	(425)	617	338
FX and other changes to cash	(1.97)	(9.90)	(5.20)	0	0
Change in Cash	973	(521)	(430)	617	338
Change in Net Debt	518	1,545	1,152	59.7	(648)
Net Debt (Reported)	1,780	3,325	4,478	4,538	3,889
Net Debt (Adjusted)	(534)	(281)	2,307	3,216	3,068

Key Balance Sheet Data					
Property, Plant & Equipment	4,393	5,751	4,557	5,533	5,356
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	73.8	92.9	42.0	57.7	64.7
Other Non-Current Assets	291	1,510	1,395	1,395	895
Trade Receivables	1,278	826	476	631	619
Cash & Equivalents	1,543	1,022	592	1,209	1,547
Other Current Assets	2,263	2,424	1,082	219	216
Total Assets	9,842	11,625	8,144	9,044	8,697
Long-Term Debt	2,300	2,871	3,354	4,031	3,720
Other Non-Current Liabilities	186	197	52.4	52.4	52.4
Short-Term Debt	1,024	1,477	1,716	1,716	1,716
Other Current Liabilities	1,733	1,185	610	859	848
Total Liabilities	5,242	5,729	5,732	6,659	6,337
Total Equity	4,600	5,896	2,411	2,385	2,360
Total Equity & Liabilities	9,842	11,625	8,144	9,044	8,697

Business Performance*					
Return On Capital Employed	93.6%	52.2%	-23.7%	3.61%	3.67%
Return On Equity	191%	88.5%	-17.9%	-1.08%	-1.07%
Operating Margin	54.2%	48.9%	-49.7%	4.57%	5.08%
Free Cash Flow (MM)	4,037	4,363	(675)	44.8	639

Quality of Earnings*					
Cash Realization Ratio	1.28x	1.32x	NM	NM	NM
Asset Replacement Ratio	1.57x	0.25x	0.06x	0.41x	0.23x
Tax Rate	17.9%	23.2%	5.99%	23.0%	23.0%
Net Debt/Equity	38.7%	56.4%	186%	190%	165%
Interest Cover	33.3x	25.8x	-5.77x	0.63x	0.67x

* For full definitions of iQmethodSM 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 to stabilize in 2024 driven by the end of de-stocking. ZIM's higher leverage and costs makes it more exposed to spot rates than other carriers.

Stock Data

Price to Book Value

0.7x

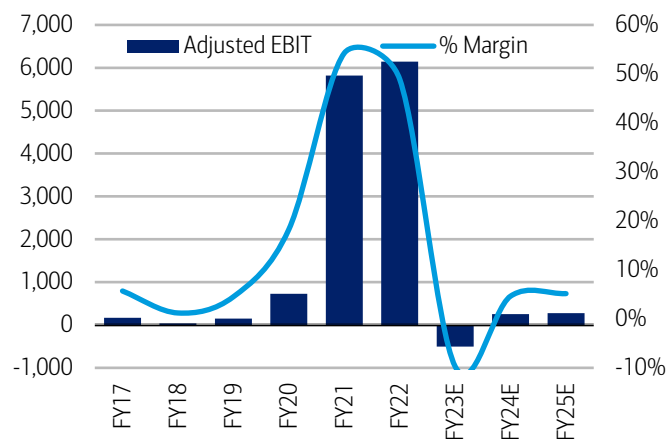
Quarterly Earnings Estimates

	2022	2023
Q1	14.21A	-0.48A
Q2	11.09A	-1.63A
Q3	9.74A	-2.25A
Q4	3.46A	-1.33E

BofA estimates and valuation

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

Our 2023E EBIT estimate is at the midpoint of guidance

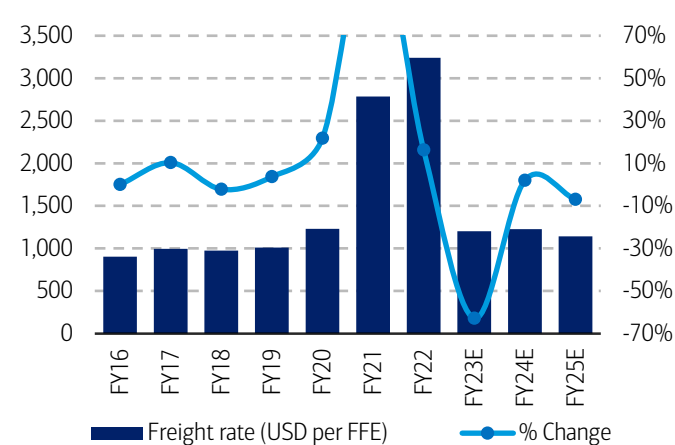


Source: BofA Global Research estimates, company report

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

We forecast ZIM's freight rates to increase 2% in 2024E

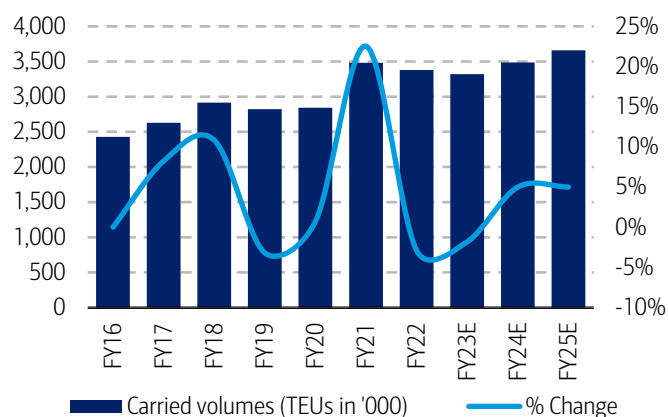


Source: BofA Global Research estimates, Company Reports

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

+5% volume increase in 2024E as fleet grows

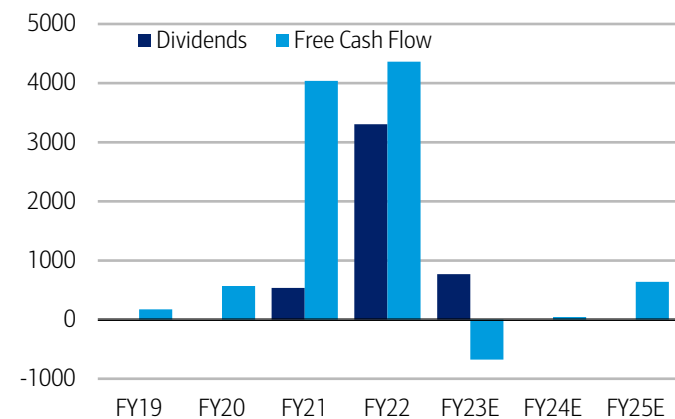


Source: BofA Global Research estimates, Company Reports

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

We forecast slightly positive FCF and no dividends in 2024E

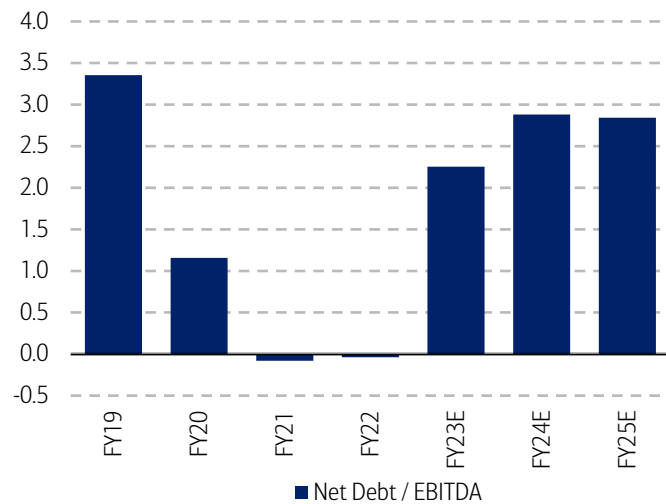


Source: BofA Global Research estimates, Company Reports

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Exhibit 5: Net debt/EBITDA

ND/EBITDA increases to c3x in 2024E on our estimates

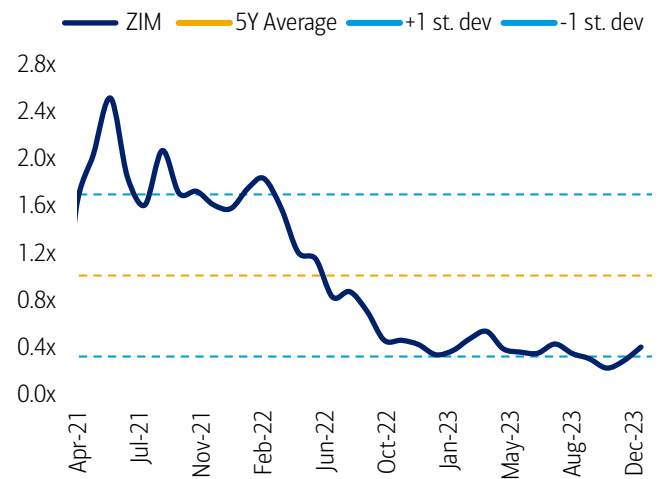


Source: BofA Global Research estimates, company report

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Exhibit 6: ZIM's P/B valuation

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



Source: BofA Global Research, Eikon

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Exhibit 7: BofA estimates vs consensus

We are at the midpoint of company guidance of -\$600m to -\$400m on 2023E EBIT

	BofA			Consensus			Difference		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	5,197	5,480	5,380	5,154	5,029	5,257	1%	9%	2%
EBITDA	1,024	1,116	1,080	973	753	896	5%	48%	21%
% margin	19.7	20.4	20.1	18.9	15.0	17.0			
EBIT	-505	254	277	-957	-361	-181	47%	170%	253%
% margin	-9.7	5	5	-18.6	-7.2	-3.4			
Net Income	-2701	-26	-25	-1851	-501	-379	-46%	95%	93%
% margin	-52.0	0	-0.5	-35.9	-10.0	-7.2			
EPS, reported	-22.5	-0.2	-0.2	-15.4	-4.2	-3.2	-46%	95%	93%

Source: Bloomberg, BofA Global Research estimates

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Exhibit 8: ZIM valuation summary

ZIM trades on a 0.7x P/B on our 2024E estimates

Valuation Summary

Year End 31st December (USD m)	FY21	FY22	FY23E	FY24E	FY25E
Share price (USD) (period end)	58.9	17.2	13.1	13.1	13.1
Total Shares Outstanding	119	120	120	120	120
Market Cap	6,980	2,065	1,580	1,580	1,580
Plus: Net debt	-534	-281	2,307	3,216	3,068
Less: Associates	12	22	27	27	27
Plus: Minorities	8	6	4	4	4
Enterprise Value	6,442	1,769	3,864	4,773	4,625
Plus: Net Pension Benefits	66	45	39	39	39
Plus: Provisions	28	50	58	58	58
Enterprise Value inc. pensions and provisions	6,536	1,864	3,961	4,871	4,723
Adj. EBITDA	6,597	7,541	1,024	1,116	1,080
EV/EBITDA	1.0	0.2	3.8	4.3	4.3
Adj. EBIT	5,820	6,145	-505	254	277
EV/EBIT	1.1	0.3	NM	18.8	16.7

Exhibit 8: ZIM valuation summary

ZIM trades on a 0.7x P/B on our 2024E estimates

Valuation Summary

EPS	39.1	38.5	-6.2	-0.2	-0.2
P/E	1.5	0.4	NM	NM	NM
Dividend per share	19.5	17.0	0.0	0.0	0.0
Dividend yield	33%	99%	0%	0%	0%
FCF	4,037	4,363	-675	45	639
FCF yield	58%	211%	-43%	3%	40%
Equity	4,592	5,890	2,408	2,382	2,356
Average BV/share	22.2	43.9	34.5	19.9	19.7
P/BV	2.65	0.39	0.38	0.66	0.67
Invested Capital	4,820	8,975	8,788	7,353	7,093
EV/ IC	1.34	0.20	0.44	0.65	0.65
ROIC Pre-Tax	120.7	68.5	-5.7	3.5	3.9
ROIC Post-Tax	99.2	52.6	-5.4	2.7	3.0
ROIC/WACC	9.52	5.05	-0.52	0.26	0.29
ROE	190.9	88.4	-17.9	-1.1	-1.1
ROE / CoE	17.94	8.30	-1.68	-0.10	-0.10

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 0.55x 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
BUY				
	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
	easyJet	EJTTF	EZJ LN	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
	International Distributions Services PLC	ROYMF	IDS LN	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	Muneeba Kayani
NEUTRAL				
	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
	Kuehne + Nagel	KHNGF	KNIN SW	Muneeba Kayani
	Kuehne + Nagel	KHNGY	KHNGY US	Muneeba Kayani
	Whitbread	WTBCF	WTB LN	Muneeba Kayani
	Wizz Air	WZZAF	WIZZ LN	Muneeba Kayani
UNDERPERFORM				
	Air France-KLM	AFRAF	AF FP	Muneeba Kayani
	Air France-KLM	AFLYY	AFLYY US	Muneeba Kayani
	Austrian Post	OERCF	POST AV	Muneeba Kayani
	Lufthansa	DLAKY	DLAKY US	Muneeba Kayani
	Lufthansa	DLAKF	LHA GY	Muneeba Kayani
	PostNL	TNTFF	PNL NA	Muneeba Kayani
	ZIM	ZIM	ZIM US	Muneeba Kayani

EMEA - Transports & Hotels Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM 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 & 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

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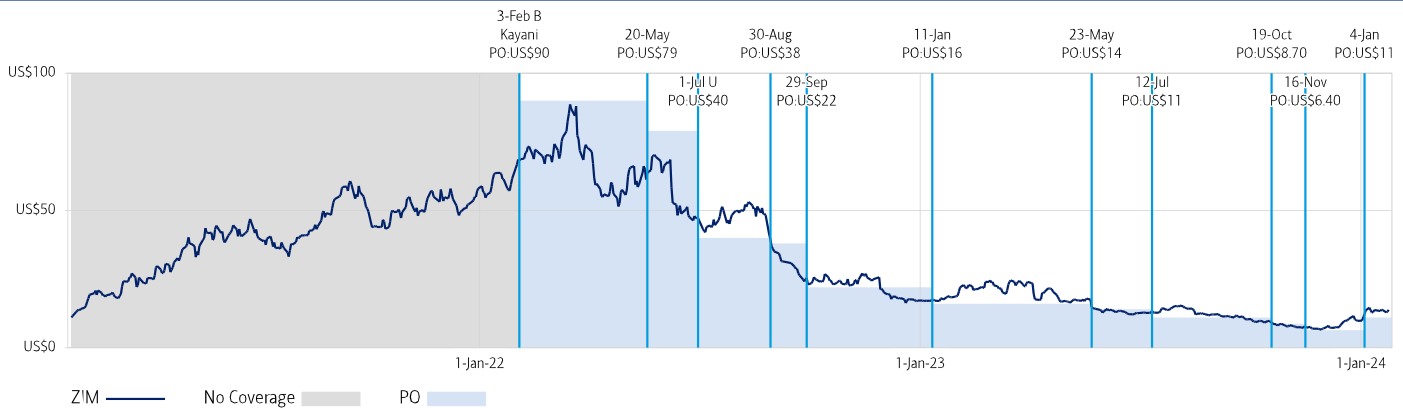
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Disclosures

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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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