



# ZIM Integrated Shipping Services (ZIM)

Updated November 22<sup>nd</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$25	<b>5 Year CAGR Estimate:</b>	17.9%	<b>Market Cap:</b>	\$2.95 B
<b>Fair Value Price:</b>	\$114	<b>5 Year Growth Estimate:</b>	-30.0%	<b>Ex-Dividend Date:</b>	11/28/2022
<b>% Fair Value:</b>	22%	<b>5 Year Valuation Multiple Estimate:</b>	35.9%	<b>Dividend Payment Date:</b>	12/07/2022
<b>Dividend Yield:</b>	77.2%	<b>5 Year Price Target</b>	\$19	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

Founded in Israel in 1945, ZIM Integrated Shipping Services is one of the oldest shipping liners, with over 75 years of experience, providing customers with innovative seaborne transportation and logistics services. The company operates a fleet of 149 vessels operating across five geographic trade zones, providing ZIM with a global footprint. Specifically, Transpacific, Atlantic, Cross, Intra-Asia, and Latin America, accounted for 39%, 18%, 10%, 27%, and 6% of the company's carried TEUs last year, respectively. Unlike some of its competitors, which have perused long-term charters to counterbalance the effects of a very cyclical industry, ZIM has opted for short-term charters, usually lasting a year or less. Thus the company's results are almost totally correlated with the sum of each type of vessel's underlying rate index. ZIM Integrated Services generated \$10.7 billion in revenues last year and is based in Haifa, Israel.

On November 16<sup>th</sup>, ZIM reported its Q3 results for the period ending September 30<sup>th</sup>, 2022. Revenues for the second quarter were \$3.23 billion, a year-over-year increase of 44.1%. The increase was due to considerably higher charter rates, despite carried volumes falling by 5% to 842 thousand TEUs. Net income was \$1.17 billion, a year-over-year decline of 20.3%, or \$9.66 per diluted share (down 20.5%). Due to a worsening freight rate outlook, the company adjusted its previously provided guidance, now expecting to generate adjusted EBITDA of between \$7.4 billion and \$7.7 billion for the full year. Based on this and the current charter rates, we estimate EPS of around \$38.00 for fiscal 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	---	(\$0.54)	(\$2.05)	\$0.02	(\$1.68)	\$0.06	(\$1.26)	(\$0.18)	\$5.18	\$40.31	<b>\$38.00</b>	<b>\$6.39</b>
<b>DPS</b>	---	---	--	---	---	---	---	---	---	\$19.50	<b>\$19.00</b>	<b>\$3.19</b>
<b>Shares<sup>1</sup></b>	---	999.8	100.0	100.0	100.0	100.0	100.0	100.0	104.5	118.9	<b>120.4</b>	<b>120.4</b>

During the past decade of underwhelming charter rates amid challenging dynamics in the shipping industry (including containerships and liners in this case), ZIM results had remained rather depressed prior to the pandemic. Following the COVID-19 pandemic, which caused increased logistics bottlenecks, port congestions, and increased demand for cargo deliveries against a relatively tight liner market, the stars finally aligned for ZIM. Through fiscal 2021, rates remained at sky-high rates, resulting in the company netting an impressive \$40.31 per share. To illustrate how massive the growth in rates, and consequently in ZIM's earnings and dividends, has been, ZIM IPOed at \$15 per share in January of 2021 and, by the end of the year, paid \$19.50 in dividends per share. Despite the pandemic easing and charter rates modestly declining from their February 2022 highs, they remain nearly five times higher than their decade average and still higher than last year's levels. Thus, fiscal 2022 should be another record year in terms of profits. On the one hand, there are multiple catalysts that could support elevated rates for years to come, including port congestions, lacking landside infrastructure, IMO [2023 slow steaming regulations](#), and increased scraping. On the other hand, freight rates have cratered from last year, which will materially damage profitability in the coming years. Thus we have implemented a negative 30% CAGR in the company's EPS over the medium-term. Following outstanding profitability and net debt turning negative (i.e., a net cash position excluding lease liabilities), ZIM has employed an updated dividend policy.

<sup>1</sup> Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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**How it works:** ZIM's payout for each of the first three quarters of the year is to be around 30% of its net income generated in each quarter. Each fourth quarter once a year, ZIM is going to pay a dividend so that the cumulative distribution amount will sum between 30% and 50% of its annual net income. As a result, our dividend forecasts mirror our EPS forecasts, again projecting a negative 20% CAGR over the medium-term, to be prudent. In any case, the dividend policy is going to result in major payouts, even if rates do indeed soften moving forward.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	---	---	---	--	---	---	---	---	---	1.3	0.6	3.0
Avg. Yld.	---	---	---	--	---	---	---	---	---	36.7%	77.2%	16.7%

ZIM shares are currently trading below what the company will make this year. This is due to investors expecting the company's earnings to plummet moving forward. Due to the company's earnings nature being highly volatile, we have assigned a fair multiple of 3 to ZIM shares. In itself, this multiple is mostly arbitrary as rates are highly unpredictable. Regardless, with rates remaining strong, excellent market dynamics, and a generous dividend policy, we believe shares are substantially undervalued. Note that Israel's dividend withholding tax is quite high at 25%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

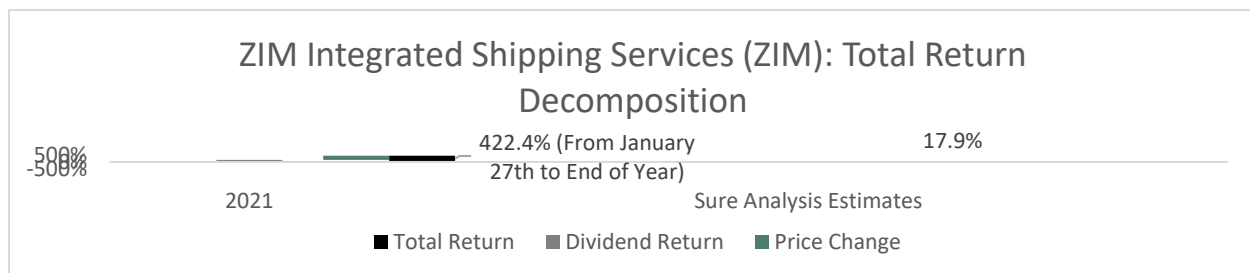
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	--	---	---	---	---	---	48%	50%	50%

In line with ZIM's dividend policy, the payout ratio should remain near 50%. While payouts should remain massive, at least in the short-term, conservative, income-oriented investors should not rely on them. For steadily growing dividends, certainly, look elsewhere. In terms of its competitive advantages, ZIM's complex and sophisticated network of lines allows it to be very agile in the markets in which it competes. Within its global network, it also offers value-added and tailored services, including operating several logistics subsidiaries to provide complimentary services to its customer. That said, earnings will ultimately be subject to the underlying market rates. Following its gigantic earnings lately, ZIM's net leverage declined from 5.3X in Q1-2019 to 0.0X currently. The balance sheet is incredibly healthy, with shareholders' equity amounting to \$5.80 billion. ZIM isn't necessarily vulnerable to a recession, as multiple other macroeconomic variables can sway rates. Still, it could be affected by one.

## Final Thoughts & Recommendation

Assuming ZIM's earnings and dividends gradually decline moving forward, we estimate that shares can deliver annualized returns of around 17.9% in the medium-term, driven by the dividend yield and valuation tailwinds. However, all estimates, including our fair valuation multiple, are highly speculative and can be easily swayed by the underlying dynamics of the market. While the stock has the potential to keep producing great returns moving forward, which earns it a buy rating, only investors who understand the industry comprehensively should consider allocating capital to it.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2019	2019	2020	2021
Revenue						2,978	3,248	3,300	3,992	10,729
Gross Profit						281	148	263	865	6,067
Gross Margin						9.4%	4.6%	8.0%	21.7%	56.5%
SG&A Exp.						122	116	120	129	268
D&A Exp.						108	112	246	314	779
Operating Profit						136	6	114	706	5,812
Operating Margin						4.6%	0.2%	3.5%	17.7%	54.2%
Net Profit						6	(126)	(18)	518	4,640
Net Margin						0.2%	-3.9%	-0.6%	13.0%	43.3%
Free Cash Flow						201	202	354	838	4,966
Income Tax						14	14	12	17	1,010

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets							1,826	1,926	2,824	9,842
Cash & Equivalents							186	183	570	1,543
Accounts Receivable							314	264	458	1,178
Inventories							70	60	52	119
Goodwill & Int. Ass.							65	65	66	74
Total Liabilities							2,050	2,178	2,550	5,242
Accounts Payable							378	351	305	434
Long-Term Debt							757	682	658	252
Shareholder's Equity							(230)	(258)	267	4,592
D/E Ratio							(3.29)	(2.65)	2.46	0.05

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2019	2019	2020	2021
Return on Assets								-1.0%	21.8%	73.3%
Return on Equity									N/A	191.0%
ROIC								-3.8%	76.0%	160.5%
Shares Out.						100.0	100.0	100.0	104.5	118.9
Revenue/Share						29.78	31.14	31.63	33.97	90.21
FCF/Share						2.01	1.94	3.40	7.13	41.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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