



# ZIM Integrated Shipping Services (ZIM)

Updated March 14<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$21.37	<b>5 Year CAGR Estimate:</b>	10.4%	<b>Market Cap:</b>	\$2.50 B
<b>Fair Value Price:</b>	\$25.00	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	03/23/2023
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.2%	<b>Dividend Payment Date:</b>	04/03/2022
<b>Dividend Yield:</b>	9.4%	<b>5 Year Price Target</b>	\$25	<b>Years Of Dividend Growth:</b>	N/A
<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 34%, 15%, 13%, 31%, and 7% 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 \$12.9 billion in revenues last year and is based in Haifa, Israel.

On March 13<sup>th</sup>, 2023, ZIM reported its Q4-2022 and full-year results for the period ending December 31<sup>st</sup>, 2022. Revenues for the fourth quarter were \$2.19 billion, a year-over-year decline of 37%. The decline was due to considerably lower charter rates and carried volumes falling by 4% to 823 thousand TEUs. Net income was \$417 million, a year-over-year decline of 75.6%, or \$3.44 per diluted share (down 75.7%). The company introduced its fiscal 2023 guidance, expecting to generate adjusted EBITDA of between \$1.8 billion and \$2.2 billion for the full year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	(\$0.54)	(\$2.05)	\$0.02	(\$1.68)	\$0.06	(\$1.26)	(\$0.18)	\$5.18	\$40.31	\$38.49	<b>\$5.00</b>	<b>\$5.00</b>
<b>DPS</b>	---	---	---	---	---	---	---	---	\$19.50	\$16.95	<b>\$2.00</b>	<b>\$2.00</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	120.1	<b>120.1</b>	<b>120.4</b>

During the past decade of underwhelming charter rates amid challenging dynamics in the shipping industry (including containerhips 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 2021 and 2022, rates remained at sky-high rates, resulting in the company netting unprecedented earnings. 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 that year, paid \$19.50 in dividends per share. Rates have now normalized, though they are still slightly higher than their pre-pandemic levels. We believe the company has an earnings power of \$5.00 under "normalized" market conditions but warn that earnings are almost impossible to predict. Moving forward, there are multiple catalysts that could support rates, including port congestions, lacking landside infrastructure, IMO [2023 slow steaming regulations](#), and increased scraping. On the other hand, the containership order book has grown significantly, meaning the global fleet is about to grow notably, which will increase vessel supply and thus suppress rates. Since it's impossible to predict which way rates and, thus, ZIM's earnings will move, we have employed stable per-share assumptions in the medium-term. Following massive profits and net debt turning negative (i.e., a net cash position excluding lease liabilities), ZIM has employed a generous dividend policy. Still, dividends this year should be a fraction of last year's.

<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. Indeed, the company declared a \$6.40 dividend-per-share with respect to Q4, bringing the FY2022 total dividend per-share at \$16.95 (i.e. 44% of earnings).

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	---	1.3	0.9	<b>4.3</b>	<b>5.0</b>
Avg. Yld.	---	---	---	---	---	---	---	---	36.7%	50.0%	<b>9.4%</b>	<b>8.0%</b>

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 5 to ZIM shares. In itself, this multiple is mostly arbitrary as rates are highly unpredictable. Considering that the Q4 dividend has yet to go ex-dividend (i.e., it is embedded in the stock price and hence our multiple), we believe shares are relatively undervalued. Note that Israel's dividend withholding tax is quite high at 25%.

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

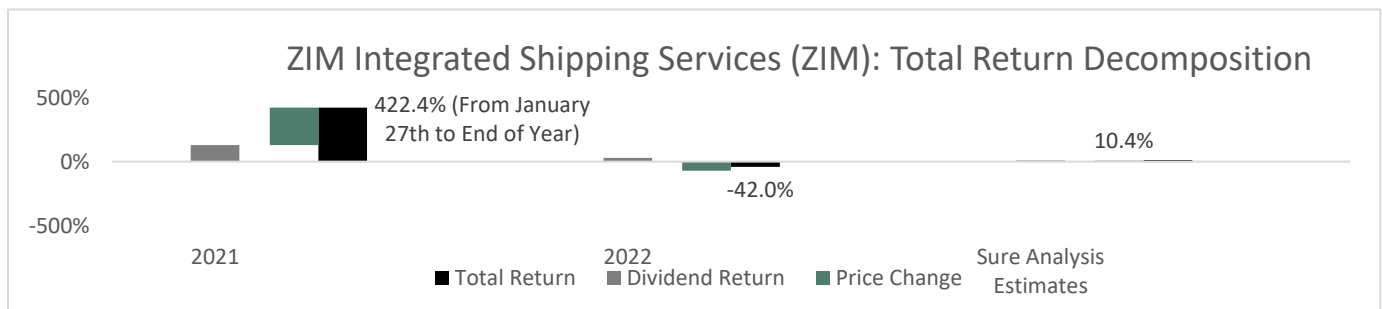
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	48%	44%	<b>40%</b>	<b>40%</b>

In line with ZIM's dividend policy, the payout ratio should remain between 30% and 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 in the past two years, 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 \$5.9 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

We estimate that shares can deliver annualized returns of around 10.4% in the medium-term, driven by the dividend yield and valuation tailwinds. However, all estimates, including our fair valuation multiple, are arbitrary 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 and its risks 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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