



ZIM Integrated Shipping Services (ZIM)

Updated November 18th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$7.65	5 Year CAGR Estimate:	8.1%	Market Cap:	\$916.3 M
Fair Value Price:	\$7.50	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	N/A
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	N/A
Dividend Yield:	N/A	5 Year Price Target	\$7.50	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Rating:	Hold

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 November 15th, 2023, ZIM reported its Q3 results for the period ending September 18th, 2023. Revenues for the third quarter were \$1.27 billion, a year-over-year decline of 61%. The decline was entirely due to considerably lower charter rates, as carried volumes saw a slight increase, coming in at 867 thousand TEUs. Net loss was \$2.27 billion or \$18.90 per diluted share compared to a net income of \$1.17 billion or \$9.66 in the prior-year period. This was due to a non-cash impairment loss of approximately \$2.1 billion due to lower freight rates negatively impacting the value of ZIM's assets.

The company revised its fiscal 2023 guidance, expecting to generate adjusted EBITDA of between \$900 million and \$1.1 billion (down from \$1.2 billion to \$1.6 billion) for the full year. No dividends were declared with respect to Q3, in line with ZIM's dividend policy (see below). We have assumed an earnings power of \$4.01.500 for ZIM under "normalized conditions", as well as the possibility of a \$0.75/share dividend per annum from fiscal 2024 onwards in our estimates. Both figures are entirely speculative and arbitrary due to the unpredictable nature of the business.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	(\$0.54)	(\$2.05)	\$0.02	(\$1.68)	\$0.06	(\$1.26)	(\$0.18)	\$5.18	\$40.31	\$38.49	\$1.50	\$1.50
DPS	---	---	---	---	---	---	---	---	\$19.50	\$16.95	---	\$0.75
Shares¹	999.8	100.0	100.0	100.0	100.0	100.0	100.0	104.5	118.9	120.1	120.2	120.5

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. 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 containerhip order book has grown significantly, meaning the global fleet should grow notably, which

¹ 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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will increase vessel supply and thus suppress rates. Since it is 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 in 2021 and 2022 and net debt turning negative (i.e., a net cash position excluding lease liabilities), ZIM has employed a generous dividend policy. Still, no dividends will be likely paid this year.

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. During the fourth quarter, ZIM then pays 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). Note that Israel's dividend withholding tax is quite high at 25%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	---	1.3	0.9	5.1	5.0
Avg. Yld.	---	---	---	---	---	---	---	---	36.7%	50.0%	0.0%	10.0%

ZIM shares are currently trading below what the company made last year. This is due to investors expecting the company's earnings to remain depressed moving forward. Due to the company's earnings nature being highly volatile, we have assigned ZIM a fair multiple of 5.0. In itself, this multiple is mostly arbitrary as rates are highly unpredictable.

Safety, Quality, Competitive Advantage, & Recession Resiliency

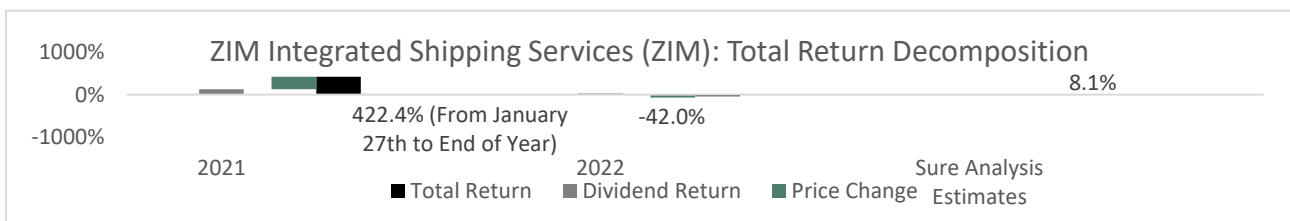
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	48%	44%	---	50%

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 0.9X currently. The balance sheet is healthy, with shareholders' equity amounting to \$2.6 billion. ZIM isn't necessarily vulnerable to a recession, as multiple other macroeconomic variables can sway rates. Still, it could be affected by a recession.

Final Thoughts & Recommendation

We estimate that shares can deliver annualized returns of around 8.1% in the medium-term, mainly driven by our earnings power and a potential dividend of \$0.75/share from 2024 onwards. However, all estimates, including our fair valuation multiple, are arbitrary and can be easily swayed by the volatile dynamics of the market. So, while we rate it a hold, only investors who understand the industry and its risks comprehensively should consider allocating capital to ZIM.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2019	2019	2020	2021	2022
Revenue					2,978	3,248	3,300	3,992	10,729	12,560
Gross Profit					281	148	263	865	6,067	6,427
Gross Margin					9.4%	4.6%	8.0%	21.7%	56.5%	51.2%
SG&A Exp.					122	116	120	129	268	290
D&A Exp.					108	112	246	314	779	1,396
Operating Profit					136	6	114	706	5,812	6,094
Operating Margin					4.6%	0.2%	3.5%	17.7%	54.2%	48.5%
Net Profit					6	(126)	(18)	518	4,640	4,619
Net Margin					0.2%	-3.9%	-0.6%	13.0%	43.3%	36.8%
Free Cash Flow					201	202	354	838	4,966	5,765
Income Tax					14	14	12	17	1,010	1,398

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2019	2019	2020	2021	2022
Total Assets						1,826	1,926	2,824	9,842	11,630
Cash & Equivalents						186	183	570	1,543	1,022
Accounts Receivable						314	264	458	1,178	672
Inventories						70	60	52	119	191
Goodwill & Int. Ass.						65	65	66	74	93
Total Liabilities						2,050	2,178	2,550	5,242	5,729
Accounts Payable						378	351	305	434	427
Long-Term Debt						757	682	658	252	174
Shareholder's Equity						(230)	(258)	267	4,592	5,890
D/E Ratio						(3.29)	(2.65)	2.46	0.05	0.03

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2019	2019	2020	2021	2022
Return on Assets							-1.0%	21.8%	73.3%	43.0%
Return on Equity								N/A	191.0%	88.1%
ROIC							-3.8%	76.0%	160.5%	84.6%
Shares Out.					100.0	100.0	100.0	104.5	118.9	120.3
Revenue/Share					29.78	31.14	31.63	33.97	90.21	104.29
FCF/Share					2.01	1.94	3.40	7.13	41.75	47.86

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

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