Massive impairment charge drags shipping line Zim to $2.3B loss

Excluding impairment, results of Israeli carrier Zim were better than expected

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Zim does not expect the market to recover next year. (Photo: Zim)

There was no good news on container shipping's near-term future during Zim's quarterly call on Wednesday. The company booked a massive, one-off impairment charge and recovery timing was pushed back to 2025.

"We expect the industry will be under severe pressure for the foreseeable future," said Xavier Destriau, CFO of Israel-based Zim (NYSE: ZIM), the world’s 10th-largest ocean carrier. “We have little hope for a meaningful recovery in 2024.”

According to Zim CEO Eli Glickman, “Rate increases we saw in August in the trans-Pacific were short-lived.” He predicted that “2025 will mark a turning point and a return to profitability.”

According to Destriau, “There are no clear data points showing that the [inventory] restocking schedule will begin anytime soon, so it does not seem that a recovery will result from near-term growth in demand.

“At the same time, carrier capacity management has not been sufficient. Scrapping is negligible. Idling remains low. Excess supply seems to be here to stay for a while, reducing optimism that rates will recover.”

Zim adjusted EPS better than expected

After throwing in the towel on near-term recovery hopes, Zim conducted an impairment test on the discounted future cash flow of its leased fleet and other assets. The test determined that an impairment charge was indeed required — and it was a big one.

Zim booked a $2.06 billion non-cash impairment in its third quarter, including $1.6 billion for its container vessels and $392 million for its container equipment.

The company reported a net loss of $2.27 billion for Q3 2023 compared to net income of $1.17 billion the year before. However, the adjusted net loss excluding the non-cash impairment charge was $207 million — a slight improvement compared to a net loss of $213 million in the second quarter of this year.

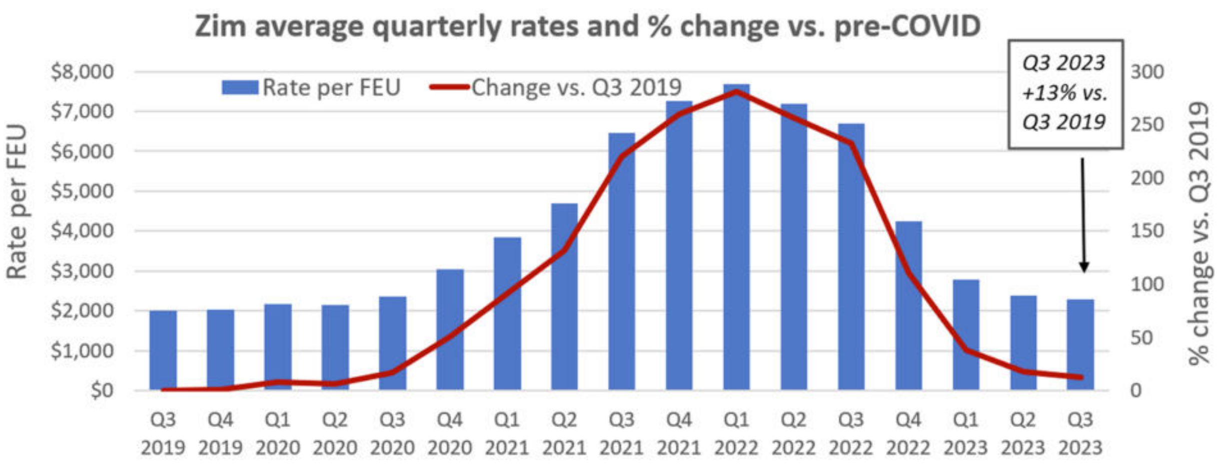
The adjusted loss of $1.76 per share was better than expected. Analysts' consensus was for a loss of $1.95 per share.

ZIM SHIPPING (NYSE: ZIM)	Q3 2023	Q3 2022	Gross change	% change
Revenue	$1,273,000,000	$3,228,000,000	($1,955,000,000)	(61)
Net income	($2,270,000,000)	$1,166,000,000	($3,436,000,000)	(295)
Volume (in TEUs)	867,000	842,000	25,000	3.0
Average rate (per FEU)	$2,278	$6,706	($4,428)	(66)

Zim lowered its guidance for full-year 2023 on Wednesday. Adjusted earnings before interest and taxes (operating profit) is expected to be between minus $400 million and minus $600 million, compared to prior guidance of minus $100 million to minus $500 million.

This implies Q4 2023 EBIT of minus $27 million to minus $227 million, compared to EBIT in the latest quarter of minus $213 million. The range midpoint implies a quarter-on-quarter improvement.

Zim's average rates (including spot and contract rates) were $2,278 per forty-foot equivalent unit in the third quarter, down 4.5% sequentially from the second quarter but still up 13% versus Q3 2019, pre-COVID.



(Chart: FreightWaves based on Zim financial filings)

'Worrisome situation' at Panama Canal

Zim is heavily exposed to drought conditions in the Panama Canal. Its main trans-Pacific focus is on the Asia-U.S. East Coast trade. Most of its newbuildings are being deployed on this route. In addition, it launched a new service from the west coast of South America to Baltimore, Maryland, in July.

The Panama Canal is sharply reducing the number of transits through February, which will cap the number of container ships able to use the larger Neopanamax locks next year.

"The Panama Canal is a worrisome situation that is evolving day after day, with the draft limitations being imposed on the industry," said Destriau.

"We are trying to optimize the utilization of the ships given the draft limitations, [which are] mainly on the weight of the cargo we are carrying. We are taking actions to utilize our feedering [feeder vessel] service in Latin America so vessels can run full across the Pacific and discharge some of their cargo before reaching the Panama Canal.

"Obviously, we are evaluating the situation day after day and we will evaluate if decisions need to be made in terms of rerouting."

Destriau said that Zim's recent decision to restart its South China-Los Angeles express service is "linked" to the Panama Canal water crisis. That service was suspended in late March and will resume on Nov. 22.

"One of the reasons we are reopening the service is that we see some of the cargo now being redirected from the East Coast back to the West Coast. We see an opportunity to resume the service, which has been quite successful for the company in the past."

Zim still has $3.1B in cash

The impairment-driven net loss of $2.27 billion did not go over well with stock traders. Shares sank to a new all-time low of $6.77 in early trading Monday before partially rebounding.

But as shipping banker Michael Parker once said: Shipping companies don't go bankrupt from being unprofitable, they go bankrupt when they run out of cash.

And Zim still has plenty of cash: $3.1 billion at the end of the latest quarter, compared to $3.2 billion at the end of the second quarter.

The impairment is a non-cash accounting measure to adjust for the expected future value of Zim's leased fleet. The company appears to be letting almost all of its existing leases for non-newbuilding vessels expire, replacing that tonnage with newly built leased tonnage as it is delivered by the shipyards. The newer, more fuel-efficient vessels boast a lower unit cost than the older ships Zim is letting go.

Zim has redelivered 20 leased ships so far this year. It has an additional five leases expiring by year-end and another 34 expiring next year. "It is very likely that the vast majority of these will be redelivered," said Destriau, who added that close to 40 additional ship leases come up for renewal in 2025.

The impairment charge allows Zim to take non-cash accounting pain in one fell swoop, effectively accelerating non-cash depreciation charges, which will have a positive effect on future net income accounting.

Destriau noted that as a result of the one-off impairment, depreciation charges in the fourth quarter will decline by around $150 million and full-year 2024 depreciation will decline by slightly more than $600 million.