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ZIM seeks container rate catalyst to achieve positive returns

ZIM has taken a $3 billion punt that demolition and emissions regulations allied with a more flexible charter market and economic growth will create drivers that will bring a better supply and demand balance to the market in 2025.

Nick Savvides | Nov 28, 2023

Xavier Destriau, EVP and CFO at ZIM told Seatrade Maritime News the carrier is replacing older and smaller chartered tonnage with more efficient modern ships, but is betting on significant changes to market fundamentals to drive rates upwards.

Zim has a total of 138 ships, eight owned and 130 chartered. Its fleet is undergoing change, however, with some 39 newbuildings due to be delivered by the end of Q1 2025. Some 25 new ships are diesel/LNG dual fuel ships, 15 vessels of 7,800 teu and another ten 15,000 teu ships, six of which have already been delivered.

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Destriau argues that these new and larger ships will reduce the carrier's costs per teu.

"The cost of operating a 15,000 teu LNG ship is the same as operating a 10,000 teu ship, so for the same cost we have 50% increase in the potential intake in this service. So, providing we fill this ship we get the benefits of the lower costs," argued Destriau.

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It is a gamble that will inevitably see the carriers revert to their pre-pandemic nature where overcapacity results in a battle for market share, but the ZIM believes that the fundamental changes necessary for them to thrive will occur by 2025, it is effectively a $3.1 billion flutter with the company's cash reserves.

That wager, Destriau accepts, means that there is a need for rates to rise significantly to meet the new challenges ahead: "We are looking for some catalyst for the rates to go back up and it's clear that at this stage there is no catalyst, due to this it's clear that this year and next the rates will not increase."

Another factor that ZIM believes will aid carriers is that by 2025 there will be "more elasticity" in the charter market, following the end of the effects of the pandemic, which saw charter periods increase substantially.

Destriau concedes that, "Many liner companies did contract quite a significant amount of tonnage in 2020-21 when there was no short-term charter market, so we committed for a longer duration than we would normally have done," as these charters end then the market will again become more flexible, argued Destriau.

It is a theme that was taken up by analyst Darron Wadey from Dutch consultancy Dynamar: “ZIM’s fleet growth coincided with a dramatic rise in charter rates experienced in 2021 and 2022, which would have been an issue for the carrier given its dependence upon chartered-in units.”

Charter rates have now declined from the pandemic highs but ZIM’s chartered-in growth spurt into 2023 will have cost implications, said Wadey.

“This is because for both 2021 and 2022, the share of chartered vessels ZIM had on hire, with terms of one to five years and a few with over five-year periods, nearly doubled to 80%. Thus, many of the vessels brought in on charter from the open market over that short but sharp period of expansion will have come with the double whammy of inflated rates and extended periods over and above the extra costs associated by simply hiring in more ships,” explained Wadey.

In fact, Wadey inadvertently puts a fly in the soup by pointing out that much of the larger and newer vessels are on long-term charter, apparently contradicting Destriau’s claim that charters will have greater flexibility going forward.

Wadey pointed out that ZIM’s network model between 2012 and 2020 lacked depth, that is it covered many trade lanes but with few services, sometimes only one service.

“It even managed to keep this network largely intact over the 2012-20 period when its financial position dictated it keep control of its own operated fleet. The only difference was that where ZIM ships offered connections, they were replaced by slot-based services,” said the analyst.

There is a complicating factor in returning to this strategy in today’s market following the delivery of the 25 larger LNG newbuilds which Dynamar believes will be challenging for the carrier.

“The complication is not because they are LNG ships, but rather the 12-year length of the charters ZIM is tied to when, arguably, it needs to exhibit the flexibility it had prior to 2020.”

ZIM may need to return to its pre-pandemic approach of charter flexibility and Wadey believes that could already be taking place as the carrier’s fleet did contract slightly going into the final quarter of 2023.

Having said that Wadey, again inadvertently, questioned ZIM’s strategy by pointing out that during the pre-pandemic period the average sized vessel in the ZIM fleet was 4,500 teu: “ZIM would need to return 56 ‘average’ ships to negate the extra capacity these 25 newbuilds will bring,” he said.

There is no single element that will see the market rebound said Destriau, it will be a combination of demolition of older tonnage, emissions charging and the greater elasticity in the charter market, whether these elements alone will be enough to bring the supply and demand equation back into balance remains to be seen.

“It’s very difficult to say whether it will be enough,” conceded Destriau, “It’s going in a good direction we think, when demand will also hopefully recover and we are still seeing very high inventories with our main customers and that will improve and demand may come back in a more normalised manner.”

However, ZIM also conceded that the next year will see continued competition between the lines for market share and if any of the stabilising events fail to materialise it could prolong the drive for market share well beyond the end of 2024 that ZIM is, rather optimistically, forecasting.

Wadey told Seatrade Maritime News: “it is possible to surmise that the expansion of ZIM’s fleet and continued reliance upon chartered in ships will have been a burden now that the markets have become more challenging.”

Perhaps this burden was the reasoning behind the accounting impairment test, a permanent reduction in the value of the company's assets, which was announced with the carrier's Q3 results; an operating loss of over $2.2 billion, including the accounting impairment.

ZIM's volumes increased slightly from 842,000 teu in Q3 last year, to 867,000 teu, but average rates per teu fell to $1,139, a year-on-year decrease of 66%.

Former banker, Mark McVicar said that the timing of the impairment was unlikely to be very significant, and other may follow at the end of the year, but perhaps more significant was his view that this was "conservative accounting".

According to McVicar the unexpected bonanza of the pandemic years has left the carrier with cash in hand, and with the downturn now in full swing it believed this was a good time to write down the value of its assets.

"It is a standard test to run," said McVicar, "But I'm less used to seeing the scale of the impairment," ultimately the return on the carrier's investment will look better to investors he added.

In conclusion McVicar pointed out that the market is, "Ridiculously difficult to predict, it is very volatile, and it has been for a long time."

One of the concerns in today's market is that containerisation, in the past, could count on "penetration" into new markets, that penetration is "more or less done now", meaning that growth is tied far more to global economic shifts, said McVicar