

Modetour Network

The cheaper way to travel

We think the attraction of Modetour is its obvious potential to gain market share post its recent IPO, thereby growing scale and profitability. With valuations at an excessive discount to Hana Tour, we see 38% potential upside. Buy with target price of W31,000.

Key forecasts

	FY03A	FY04A	FY05F	FY06F	FY07F
Revenue (Wb)	22.6	31.6	44.0	56.4	71.1
EBITDA (Wb)	0.69	3.23	4.13	6.11	7.76
Reported net profit (Wb)	0.99	2.86	3.31	4.96	6.32
Normalised net profit (Wb) ¹	0.99	2.86	3.31	4.96	6.32
Normalised EPS (W)	290.4	841.4	880.2	1181.9	1505.1
Dividend per share (W)	0.00	0.00	300.0	400.0	600.0
Dividend yield (%)	0.00	0.00	1.33	1.78	2.67
Normalised PE (x)	77.5	26.7	25.6	19.0	14.9
EV/EBITDA (x)	33.6	7.57	24.0	14.3	11.0
Price/book value (x)	1.22	0.64	6.18	4.97	4.00
ROIC (%)	92.6	141.2	48.4	40.4	45.6

1. Post-goodwill amortisation and pre-exceptional items
Source: Company data, ABN AMRO forecasts

year to Dec, fully diluted

The next 'Hana Tour'

Modetour - the second-largest tour operator in Korea - has half the market share but only a quarter of the market cap of Hana Tour. Given that we believe Modetour's scale and profitability will improve to Hana Tour's current levels within two years, thanks to aggressive marketing in a market supported by structural growth, we think the market cap gap is excessive.

Exceptional profitability should continue to improve with scale

Modetour's ROIC and ROE are high, but we expect further improvement as the number of tourists handled increases, leading to greater scale economies. Bulk discounts from suppliers increase net sales, which leads to better profit margins as the cost base is relatively fixed. Another factor supporting improving profitability is the low capital requirement. Subsequently, we expect the company's ROIC to increase to 55% in five years from 48% currently. We believe ROE can also be sustained at around 30%, assuming a dividend payout similar to that of the benchmark, Hana Tour.

Rerating to reflect improving profitability and growth

The stock - at a 2006F P/B of 4.8x vs an ROE of 29% - appears to be trading in line with low-growth consumption stocks and at a significant discount to Hana Tour (2006F P/B of 6.7x for ROE of 39%). We believe the discount to Hana Tour is undeservedly high, given our view that the two stocks share similar growth prospects at a minimum. At our DCF-based target price of W31,000 (45.9% potential upside) the stock would trade at a 2006F P/B of 6.9x (corresponding to a PE of 26.2x), which would still be at a relative discount to Hana Tour at its target (implying a 2006F P/B of 7.3x).

Important disclosures and analyst certifications regarding companies that are the subject of this report can be found in the Disclaimer Appendix.

Priced at close of business 9 November 2005. Use of ▲ ▼ indicates that the line item has changed by at least 10%.

12FL, Seoul City Tower Bldg, 581 Namdaemunro 5-Ka, Chung-Ku, Seoul 100-803, South Korea

Buy

Absolute performance

n/a

Short term

Overweight

Market relative to region

Leisure and Hotels

Korea

Price

W22500.00

Target price

W31000.00

Market capitalisation

W94.50bn (US\$90.34m)

Avg (12mth) daily turnover

W989.03m (US\$0.95m)

Reuters

080160.KQ

Bloomberg

080160 KS

Asset allocation

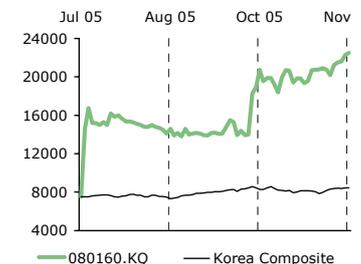
Equities Underweight

Cash Overweight

Bonds Overweight

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (W)	19550	15650	n/a
Absolute %	15.1	43.8	n/a
Rel market %	12.6	28.8	n/a
Rel sector %	17.1	39.1	n/a



Stock borrowing: Impossible

Volatility (30-day): 72.65%

Volatility (6-month trend): ↑

52-week range: 22900.00-7500.00

Korea Composite: 1227.59

BBG AP Leisure & Hotels: 166.07

Source: ABN AMRO & Bloomberg

Analysts

Gina Kim, CFA

ABN AMRO Asia Ltd, Seoul Branch
South Korea
+82 2 2131 6466
gina.kim@kr.abnamro.com

Scott Gibson

+82 2 2131 6451
scott.gibson@kr.abnamro.com

www.abnamroresearch.com

The Basics

Key assumptions

We expect the total outbound tourist market to grow by 24% in 2005 and 13-15% during 2006-08. Our market share assumption for Modetour is 4.1% for 2005, which we expect will gradually increase to 6.1% by 2008. Our net sales growth assumption for Modetour is 39% for 2005 and 23-28% for 2006-08. We expect the company's operating profit margin to increase from 8.8% in 2005 to 10.8% by 2008, mainly due to operating leverage.

How we differ from consensus

We are the only foreign broker covering the stock. Our EPS forecast for 2007F is 30% higher than consensus because we believe greater scale would lead to an improvement in both higher net sales growth and profit margins. This is different from consensus, in which most believe net sales growth will lag the market leader, Hana Tour, and increased marketing expenses will suppress margin improvement for the next two to three years. We believe consensus is not taking into account the cost savings from supplier discounts as scale improves, which would lead to faster net sales growth (vs billing amount growth) and higher profit margins due to the leverage effect, offsetting the increased marketing expenses.

Valuation and target price

Our 12-month target price of W31,000 is based on ABN AMRO's three-stage DCF model, which conservatively assumes Modetour's supernormal ROIC will increase to 62% at the end of our explicit forecast period (2011F) and gradually decline to our WACC assumption of 10.4%. We believe our DCF value represents an achievable target price because returns and free cash flow generation are both high and relatively predictable. At our target price, the stock would trade at a 2006F PE of 26.2x (corresponding to a P/B of 6.9x).

Catalysts for share price performance

We see the following potential catalysts for the share price:

- Upgrades to consensus earnings; and
- Evidence of market share gains.

Risks to central scenario

Risks to our central scenario and target price include:

- Decrease in outbound tourist numbers due to outbreaks of, for example, bird flu;
- Slower-than-expected growth of monthly tourist numbers handled due to a faster-than-expected increase of competition; and
- Guidance on dividend payout that is significantly lower than Hana Tour's, which would lower ROE expectations.

Versus consensus

EPS (W)	ABN AMRO	Cons	% diff
2005F	880	875	0.6%
2006F	1,182	1,077	9.7%
2007F	1,505	1,158	29.9%

Source: Reuters, ABN AMRO forecasts

Key events

Date	Event
Nov 2005	3Q05 earnings

Source: Company

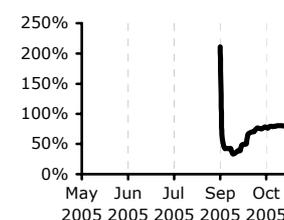
Forced ranking*

Company	Rec	Upside /downside
Modetour	Buy	38%
Daekyo	Buy	21%
Hana Tour	Hold	9%
Shinsegae Co	Add	4%
Amore Pacific	Reduce	-11%
CJ CGV	Sell	-12%

*By difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page

Source: ABN AMRO forecasts

Volatility (30 day)



Source: Bloomberg

Key assumptions and sensitivities

Below are the key assumptions behind our forecast and sensitivity analysis.

Table 1 : Key assumptions

	2002	2003	2004	2005F	2006F	2007F	2008F
Total outbound travellers	6,375,377	6,343,633	8,008,904	9,658,829	11,154,348	12,659,936	14,174,403
% growth	18.0%	-0.5%	26.3%	20.6%	15.5%	13.5%	12.0%
Total outbound tourists	3,441,532	3,417,532	4,679,702	5,795,297	6,692,609	7,722,561	8,788,130
% growth	30.0%	-0.7%	36.9%	23.8%	15.5%	15.4%	13.8%
% travellers	54.0%	53.9%	58.4%	60.0%	60.0%	61.0%	62.0%
Tourist market share							
Hana Tour	5.7%	6.9%	7.4%	8.6%	9.5%	10.0%	10.5%
Modetour	3.0%	3.3%	3.7%	4.6%	5.0%	5.5%	6.1%
Net sales less commission/gross sales							
Hana Tour	6.4%	5.9%	6.4%	6.5%	6.5%	6.5%	6.5%
Modetour	5.5%	5.0%	4.9%	4.9%	5.0%	5.0%	5.0%
Package tours/total net sales							
Hana Tour	55.3%	57.6%	65.2%	65.3%	65.5%	66.0%	66.9%
Modetour	53.6%	54.4%	52.5%	53.5%	53.5%	53.8%	54.1%
ROIC							
Hana Tour	50%	36%	42%	46%	54%	75%	99%
Modetour		93%	141%	54%	46%	54%	57%
ROE							
Hana Tour	57%	41%	44%	44%	39%	37%	36%
Modetour	168%	37%	63%	30%	28%	29%	32%
Earnings growth							
Hana Tour	69%	2%	51%	39%	16%	22%	21%
Modetour		-45%	190%	12%	47%	28%	31%
Tourists per employee							
Hana Tour	331	317	433	521	555	616	669
Modetour	361	368	515	525	579	626	680

Source: Company data, ABN AMRO forecasts

Table 2 : 2006F ROE sensitivity to DPS

2005F DPS (W)	100	200	300	400	500
2005F Dividend payout	12.7%	25.4%	38.1%	50.7%	63.4%
2006F ROE	28.3%	28.6%	28.9%	29.3%	29.6%

Source: ABN AMRO forecasts

Re-rating a la Mode

We believe Modetour’s profitability will improve with better brand equity and, subsequently, greater scale. The stock’s valuation, however, has yet to fully reflect improving returns and superior growth potential in our view.

The next ‘Hana Tour’...

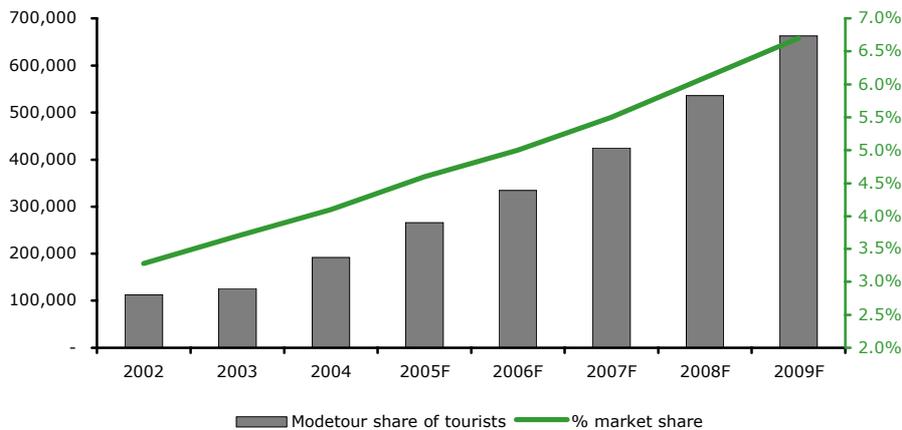
We believe Modetour Networks – the second-largest name in Korea’s tour operator market – is currently where Hana Tour was two years ago in terms of scale and profitability. Hana Tour currently leads the package tour market with more than 400k tourists handled per year, which is more than twice what Modetour had in 2004.

We expect Modetour’s profitability to increase significantly as the number of tourists travelling with Modetour increases to Hana Tour’s current level by 2007. Our forecast number of Modetour tourists implies a CAGR of 28% over the next five years, which is much higher than our total tourist market CAGR assumption of 16%. This implies that Modetour’s market share would gradually increase to 6.7% by 2009 from 4.1% in 2004.

Modetour is currently half the size of Hana Tour...

... but has the potential to become as big as Hana Tour is now, in two years

Chart 1 : Tourists handled by Modetour



Source: Korea Association of Travel Agencies (KATA), ABN AMRO forecast

... after a brand makeover

How will Modetour triple its scale, almost doubling its market share, within five years? The answer is improvement in brand equity, which appears to be the only significant determinant of scale.

The large tour operators – which do not have significant pricing power over each other due to similar scale economies – compete on brand. This is because potential package tourists, who are offered a selection of similarly priced tours from various tour operators, are likely to choose the brand that they are most familiar with – one that they believe to be trustworthy.

Such credibility issues regarding tour operators arose after the Asian financial crisis in 1997-98, which resulted in numerous tour operators filing for bankruptcy. Tourists were at risk of having trips cancelled without a refund in many cases because there was limited information regarding the financial status of their tour operators.

Enhanced brand equity should drive growth in scale...

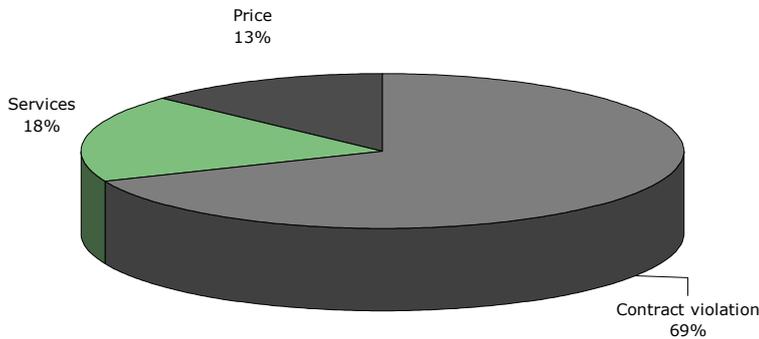
... because tour operators compete on brand...

... which represents credibility

INVESTMENT VIEW

According to a consumer complaints survey for package tours by the Korean Consumer Protection Board in 2003, close to 70% of package tourists complained about contract violations made by tour operators, mainly cancellation of trips.

Chart 2 : Complaints by tourists regarding tour operators in 2003

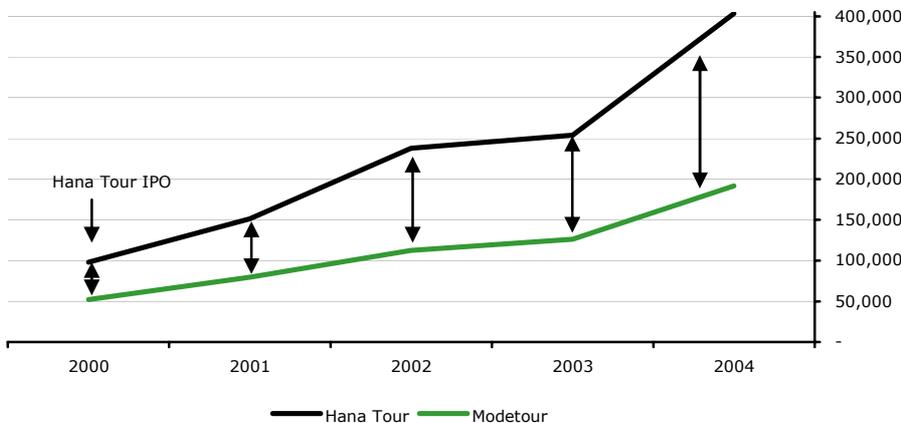


Source: Korea Consumer Protection Board

An excellent way of publicly announcing that a tour operator is at least financially viable was via an IPO, which is exactly what Hana Tour did. Since Hana Tour's IPO, the gap in the number of tourists handled per annum between Hana Tour and Modetour (which was actually established before Hana Tour) has widened by more than 400% (see Chart 3).

IPO is an excellent way of establishing brand equity...

Chart 3 : Number of tourists handled by Hana Tour and Modetour



Source: KATA

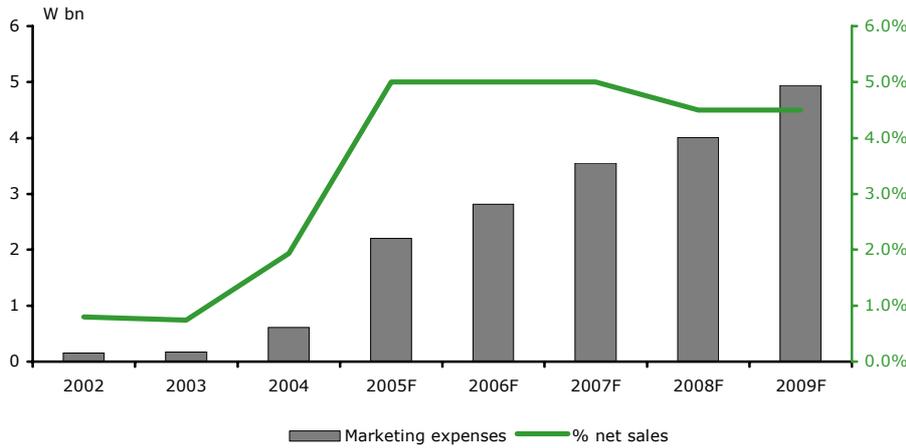
Five years after Hana Tour went public, Modetour followed suit in July 2005 – the second IPO among the Korean tour operators. We expect Modetour to also benefit in terms of increased flow of tourists from the publicity that a listed company receives.

... as Hana Tour and recently, Modetour have done

With the IPO now completed, the company plans to aggressively increase marketing spending as a part of its brand equity enhancement strategy. We expect Modetour to increase marketing costs by over 250% in 2005 to more than W2bn (equivalent to 5% of net sales), from W0.6bn in 2004 (equivalent to 2% of net sales).

Modetour also plans to increase marketing to enhance brand awareness...

Chart 4 : Marketing spending



Source: Company data, ABN AMRO forecasts

Of course, Modetour’s step-up in marketing would be effective only if the company’s package tour quality was perceived to be on par with that of Hana Tour. We believe this is the case, and evidence is provided by the number of complaints that Hana Tour and Modetour have received over the years (Table 3).

... since quality of products are not an issue vs Hana Tour

Table 3 : Complaints registered with Korea Consumer Protection Board

Company	Tourists handled	Complaints	% complaints
Hana Tour	199,450	13	0.0065%
Lotte Tour	86,134	10	0.0116%
Modetour	83,547	1	0.0012%
Freedom Tour	72244	5	0.0069%

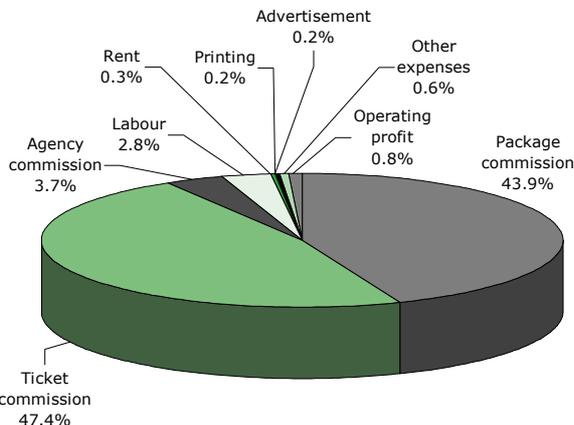
Source: Global Travel News

Profitability should continue to improve

Improving brand equity and the subsequent improvement in scale should lead to higher returns on capital for Modetour going forward. This is because of the ‘15+1 tourist free of charge’ rule – for every 15 tourists, suppliers provide for one additional tourist free of charge. As scale increases, and considering that airfare and land service expense (shown as ‘Ticket commission’ and ‘Package commission’ in Chart 5) is the biggest expense category, accounting for more than 90% of the total billing amount, such cost savings should lead to significant improvement in profit margins. Our forecast implies that the company’s operating profit margin will improve to 11.1% by 2009F.

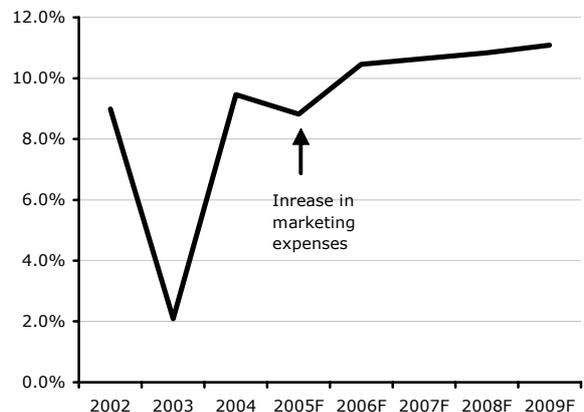
ROIC will improve as margins improve...

Chart 5 : 2004 billing amount breakdown



Source: Company data, KATA

Chart 6 : Operating profit margin forecast

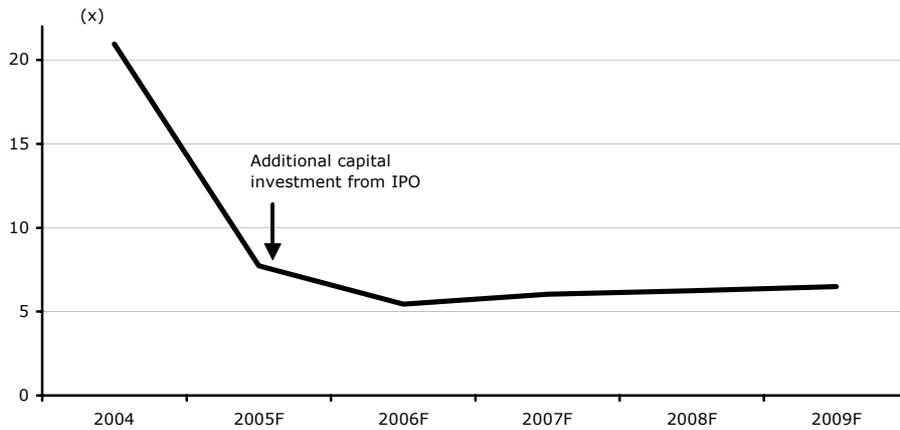


Source: ABN AMRO forecasts

Another reason we expect profitability to improve is because there are no significant capital investments required, even with a substantial increase in scale. The only capital required is for prepayment on airline tickets: collateral equivalent to 100% of airline ticket purchases for at least 23 days (billing settlement plan [BSP]) or weekly prepayments in cash. Therefore, we expect the company's capital turnover to improve with scale.

... while invested capital remains relatively small

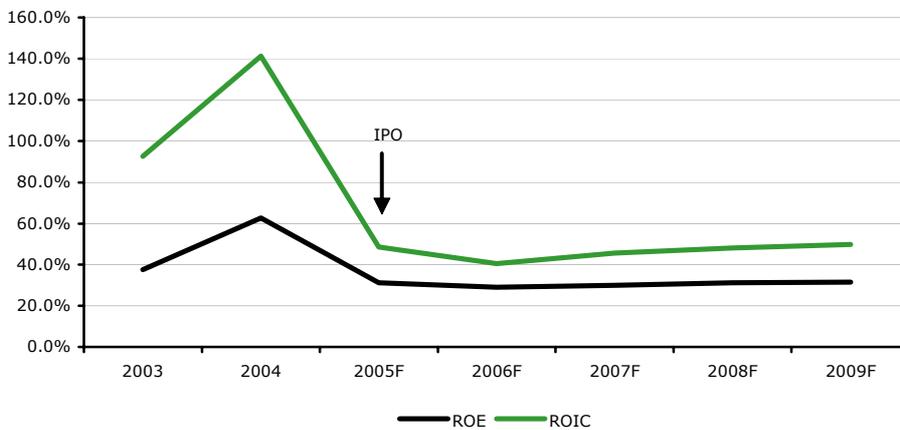
Chart 7 : Capital turnover



Source: ABN AMRO forecast

Chart 8 shows how we expect ROIC and ROE to improve for Modetour. We expect ROIC to reach 55% by 2010 from the 48% we expect in 2005. The drop in ROIC to 48% in 2005 vs its record high of 140% in 2004 is due to W3.6bn in additional time deposits set up as BSP collateral using IPO proceeds.

Chart 8 : ROIC and ROE forecasts



Source: ABN AMRO forecasts

We believe that the company's ROE will improve to 33% in 2010 from 31% expected in 2005 – this assumes the company's dividend payout rate will be similar to Hana Tour's levels (38-42% of net income). Although management has not yet provided clear guidance on dividends, it has stated that it is likely to benchmark Hana Tour.

ROE should also improve, if company establishes clear capital management plans

Like Hana Tour, Modetour has a minority shareholder-friendly ownership structure (major shareholder stake is small at 13%, freefloat is high and employees hold 10%), in our view. We therefore believe Modetour may follow Hana Tour's example of relatively efficient capital management for the benefit of shareholders.

This is different from most highly cash-generative, tightly-owned Korean small caps, which tend to have low dividend payout ratios – ignoring minority interest – as

majority shareholders, who are usually not strapped for cash, see no need to receive double-taxed dividend income.

Because of the uncertainty of forecasting dividend payout, we show in Table 4 the sensitivity of ROE to varying dividend payout.

2005F DPS (₩)	100	200	300	400	500
2005F Dividend payout	12.7%	25.4%	38.1%	50.7%	63.4%
2006F ROE	28.3%	28.6%	28.9%	29.3%	29.6%

Source: ABN AMRO forecasts

Rerating to reflect improving profitability

Modetour shares are trading in line with major consumption stocks, which have lower growth prospects, as seen in Chart 9, which shows 2006F ROE vs P/B. The shares are trading at a significant 70% premium to the market at 2006F PE of 19.0x – which may be justified given Modetour’s structural growth potential.

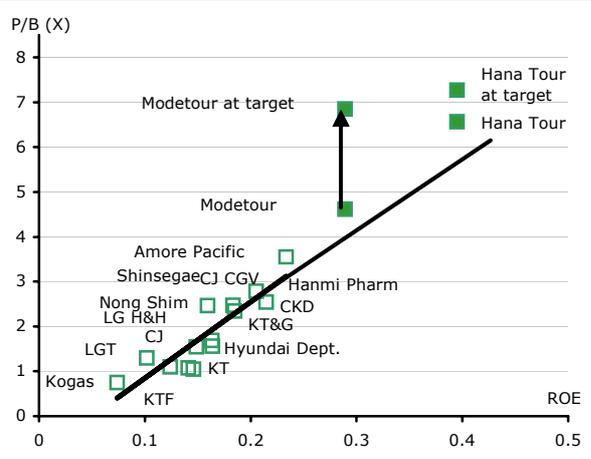
Currently trading in line with low growth consumption stocks...

Chart 9 also shows that the stock is currently trading at what we see as an undeservedly large discount to Hana Tour – the market leader with currently twice the market share of Modetour – despite sharing similar, or even better, short-term growth prospects. In market cap terms, Modetour is valued at only a quarter of Hana Tour.

... at a significant discount to Hana Tour

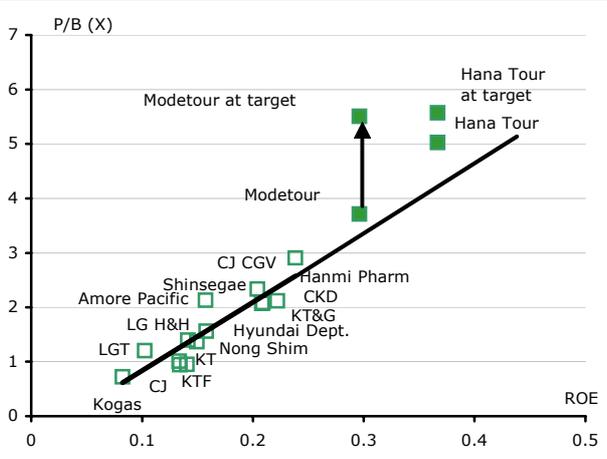
Considering that we believe Modetour’s profitability will improve going forward, the discount vs Hana Tour appears even more prominent in 2007, as shown in Chart 10.

Chart 9 : 2006F ROE vs P/B



Source: ABN AMRO forecasts

Chart 10 : 2007F ROE vs P/B



Source: ABN AMRO forecasts

Our 12-month target price of ₩31,000 – implying a significant 46% potential upside – was derived using ABN AMRO’s three-stage DCF analysis, which conservatively assumes ROIC will fade to our WACC assumption of 10.4%. We believe that a gradual decline in ROIC is inevitable, given the lack of significant entry barriers in the industry.

DCF-based target set at ₩31,000

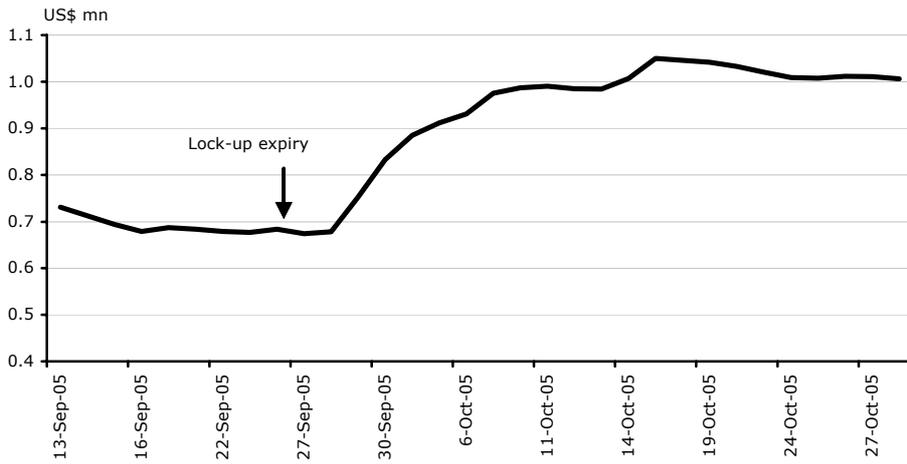
At our target, the stock would trade at a 2006F P/B of 6.9x (corresponding to a PE of 26.2x) – similar to Hana Tour’s 2006F P/B at 6.7x

Liquidity expected to improve

We expect the stock’s lack of liquidity to improve, now that the lock-up on 480,000 shares (60% of total shares outstanding) placed at domestic financial institutions has expired. Average daily turnover has increased to US\$1.0m since 26 September.

Lock-up expiry may lead to improved liquidity

Chart 11 : Average daily turnover



Source: Quantiwise

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 3% or more and a Trading Sell indicates downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For European mid- and small-caps a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%. For listed property trust stocks (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%. This structure applies to research on Asian and European stocks published from 1 November 2005 and to all Australian stocks under coverage from 7 November.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Asset allocation: The asset allocation is the responsibility of the economics team. The recommended weight (Over, Neutral and Under) for equities, cash and bonds is based on a number of metrics and does not relate to a particular size change in one variable.

Stock borrowing rating: The stock borrowing rating is the subjective view and responsibility of the ABN AMRO equity finance team: Easy implies ready availability. Moderate implies some availability. Hard implies availability is tight. Impossible implies no availability.

Distribution of recommendations

The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 10 Nov 2005)		
	Global total (IB%)	Asia / Pacific total (IB%)
Buy	497 (16)	331 (4)
Add	225 (29)	77 (6)
Hold	423 (16)	222 (5)
Reduce	129 (12)	59 (5)
Sell	101 (10)	59 (2)
Total (IB%)	1375 (17)	748 (4)

Trading recommendations (as at 10 Nov 2005)		
	Global total (IB%)	Asia / Pacific total (IB%)
Trading Buy	12 (33)	6 (0)
n/a	8 (50)	4 (25)
Trading Sell	4 (25)	2 (0)
Total (IB%)	24 (38)	12 (8)

DISCLAIMER APPENDIX

© Copyright 2005 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"). All rights reserved.

This material was prepared by the ABN AMRO affiliate named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO or its officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this material, may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may at any time solicit or provide investment banking, commercial banking, credit, advisory or other services to the issuer of any security referred to herein. Accordingly, information may be available to ABN AMRO, which is not reflected in this material, and ABN AMRO may have acted upon or used the information prior to or immediately following its publication. Within the last three years, ABN AMRO may also have acted as manager or co-manager for a public offering of securities of issuers referred to herein. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Australia: Any report referring to equity securities is distributed in Australia by ABN AMRO Equities Australia Ltd (ABN 84 002 768 701, AFS Licence 240530), a participant of the ASX Group. Any report referring to fixed income securities is distributed in Australia by ABN AMRO Bank NV (Australia Branch) (ABN 84 079 478 612, AFS Licence 238266). Australian investors should note that this document was prepared for wholesale investors only.

Canada: The securities mentioned in this material are available only in accordance with applicable securities laws and may not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact ABN AMRO Incorporated.

Hong Kong: This document is being distributed in Hong Kong by, and is attributable to, ABN AMRO Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs") and Overseas Corporate Bodies ("OCBs"), predominantly owned by such persons or Persons of Indian Origin (PIO). Any recipient of this document wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of ABN AMRO Asia Equities (India) limited.

Italy: Persons in Italy requiring further information should contact ABN AMRO Bank N.V. Milan Branch.

Japan: This report is being distributed in Japan by ABN AMRO Securities Japan Ltd to institutional investors only.

Malaysia: This report is not for distribution or transmission into Malaysia.

New Zealand: This document is distributed in New Zealand by ABN AMRO NZ Limited an accredited NZX Firm.

Russia: The Russian securities market is associated with several substantial risks, legal, economic and political, and high volatility. There is a relatively high measure of legal uncertainty concerning rights, duties and legal remedies in the Russian Federation. Russian laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Russian securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Russian securities may be affected by fluctuations in available currency rates and exchange control regulations.

Singapore: Any report referring to equity securities is distributed in Singapore by ABN AMRO Asia Securities (Singapore) Pte Limited (RCB Regn No. 198703346M) to clients who fall within the description of persons in Regulation 49(5) of the Securities and Futures (Licensing and Conduct of Business) Regulations and Regulations 34 and 35 of the Financial Advisers Regulations. Any report referring to non-equity securities is distributed in Singapore by ABN AMRO Bank NV (Singapore Branch) Limited to clients who fall within the description of persons in Regulations 34 and 35 of the Financial Advisers Regulations. Investors should note that this material was prepared for accredited investors only. Recipients who do not fall within the description of persons under Regulation 49(5) of the Securities and Futures (Licensing and Conduct of Business) Regulations or Regulations 34 and 35 of the Financial Advisers Regulations should seek the advice of their independent financial advisor prior to taking any investment decision based on this document or for any necessary explanation of its contents.

United Kingdom: All research is distributed by ABN AMRO Bank NV, London Branch, which is authorised by De Nederlandsche Bank and by the Financial Services Authority; and regulated by the Financial Services Authority for the conduct of UK business. The investments and services contained herein are not available to private customers in the United Kingdom.

United States: Distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of ABN AMRO Incorporated, Park Avenue Plaza, 55 East 52nd Street, New York, N.Y. 10055, US, tel + 1 212 409 1000, fax +1 212 409 5222.

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

Regulatory disclosures

Subject companies: **080160.KQ**

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at www.abnamroresearch.com.

Disclosures regarding companies covered by ABN AMRO group can be found on ABN AMRO's research website at www.abnamroresearch.com.

Should you require additional information please contact the relevant ABN AMRO research team or the author(s) of this report.

MODETOUR NETWORK: KEY FINANCIAL DATA

Income statement

Wb	FY03A	FY04A	FY05F	FY06F	FY07F
Revenue	22.6	31.6	44.0	56.4	71.1
Cost of sales	0.00	0.00	0.00	0.00	0.00
Operating costs	-21.9	-28.4	-39.9	-50.3	-63.3
EBITDA	0.69	3.23	4.13	6.11	7.76
DDA & Impairment (ex gw)	-0.22	-0.24	-0.25	-0.21	-0.19
EBITA	0.47	2.99	3.88	5.90	7.57
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	0.47	2.99	3.88	5.90	7.57
Net interest	0.15	0.18	0.34	0.53	0.63
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	0.44	0.85	0.44	0.56	0.71
Reported PTP	1.06	4.02	4.66	6.99	8.90
Taxation	-0.07	-1.15	-1.35	-2.03	-2.58
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	0.99	2.86	3.31	4.96	6.32
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	0.99	2.86	3.31	4.96	6.32

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

Wb	FY03A	FY04A	FY05F	FY06F	FY07F
Cash & market secs (1)	3.94	2.46	8.09	11.2	14.3
Other current assets	1.99	1.92	3.80	6.85	11.0
Tangible fixed assets	0.38	0.52	0.44	0.39	0.36
Intang assets (incl gw)	0.00	0.00	0.00	0.00	0.00
Oth non-curr assets	1.46	6.95	10.8	10.8	10.8
Total assets	7.77	11.8	23.1	29.1	36.5
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	1.74	3.02	3.69	4.99	6.32
Long term debt (3)	0.00	0.00	0.00	0.00	0.00
Oth non-current liab	2.91	2.84	4.09	5.15	6.50
Total liabilities	4.64	5.86	7.78	10.1	12.8
Total equity (incl min)	3.13	5.99	15.3	19.0	23.6
Total liab & sh equity	7.77	11.8	23.1	29.1	36.5
Net debt (2+3-1)	-1.62	-0.30	-4.95	-7.21	-9.36

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

Wb	FY03A	FY04A	FY05F	FY06F	FY07F
EBITDA	0.69	3.23	4.13	6.11	7.76
Change in working capital	0.27	0.58	-1.38	-2.35	-3.35
Net interest (pd) / rec	0.15	0.18	0.34	0.53	0.63
Taxes paid	-0.07	-1.15	-1.35	-2.03	-2.58
Other oper cash items	0.04	1.75	0.60	1.17	1.21
Cash flow from ops (1)	1.08	4.58	2.35	3.44	3.66
Capex (2)	-0.26	-0.17	-0.17	-0.17	-0.17
Disposals/(acquisitions)	0.00	0.01	0.00	0.00	0.00
Other investing cash flow	-0.17	-5.55	-3.80	0.00	0.00
Cash flow from invest (3)	-0.43	-5.71	-3.97	-0.17	-0.17
Incr / (decr) in equity	0.00	0.00	6.00	0.00	0.00
Incr / (decr) in debt	-1.43	0.18	0.27	0.25	0.33
Ordinary dividend paid	0.00	0.00	0.00	-1.26	-1.68
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	1.12	-0.53	0.98	0.81	1.02
Cash flow from fin (5)	-0.31	-0.35	7.25	-0.20	-0.33
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	0.33	-1.48	5.63	3.07	3.17
Equity FCF (1+2+4)	0.82	4.41	2.18	3.27	3.50

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

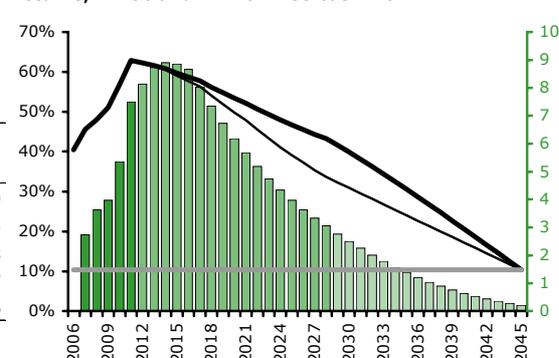
year to Dec

MODETOUR NETWORK: PERFORMANCE AND VALUATION

Standard ratios	Modetour					CJ CGV			Korea average		
Performance	FY03A	FY04A	FY05F	FY06F	FY07F	FY05F	FY06F	FY07F	2005	2006	2007
Sales growth (%)	16.5	39.8	39.1	28.2	26.1	16.7	24.1	24.0	4.08	4.87	6.23
EBITDA growth (%)	-64.4	369.2	28.0	48.0	27.0	-13.6	28.9	22.8	-8.71	4.71	13.0
EBIT growth (%)	-73.0	534.1	29.7	52.0	28.3	-21.1	30.4	27.0	-8.87	2.13	16.6
Normalised EPS growth (%)	-45.2	189.7	4.60	34.3	27.3	-34.1	30.7	39.9	n/a	n/a	n/a
EBITDA margin (%)	3.04	10.2	9.39	10.8	10.9	19.7	20.5	20.3	20.9	20.9	23.8
EBIT margin (%)	2.08	9.46	8.82	10.5	10.6	15.1	15.9	16.2	12.9	12.6	14.8
Net profit margin (%)	4.36	9.04	7.53	8.81	8.89	10.5	11.1	12.5	11.1	10.7	12.2
Return on avg assets (%)	5.86	21.7	15.8	16.0	16.4	10.5	11.9	14.3	4.42	4.20	4.71
Return on avg equity (%)	37.5	62.7	31.1	28.9	29.6	15.7	18.3	22.2	19.1	16.7	17.1
ROIC (%)	92.6	141.2	48.4	40.4	45.6	26.2	26.9	26.2	15.7	13.8	15.4
ROIC - WACC (%)	82.2	130.8	38.0	30.1	35.2	15.7	16.4	15.7	n/a	n/a	n/a
				<i>year to Dec</i>			<i>year to Dec</i>			<i>year to Dec</i>	
Valuation											
EV/sales (x)	1.02	0.77	2.25	1.55	1.20	2.27	1.89	1.50	0.96	0.89	0.79
EV/EBITDA (x)	33.6	7.57	24.0	14.3	11.0	11.5	9.21	7.39	4.97	4.62	3.79
EV/EBITDA @ tgt price (x)	85.5	18.6	32.6	20.1	15.6	9.87	7.93	6.35	0.43	0.27	n/m
EV/EBIT (x)	49.0	8.17	25.5	14.8	11.3	15.0	11.9	9.22	8.19	7.99	6.28
EV/invested capital (x)	15.3	4.29	9.57	7.40	5.96	4.28	3.39	3.00	1.49	1.35	1.21
Price/book value (x)	1.22	0.64	6.18	4.97	4.00	3.02	2.65	2.27	n/a	n/a	n/a
Equity FCF yield (%)	1.07	5.77	2.58	3.46	3.70	3.21	3.35	7.51	3.47	6.15	9.51
Normalised PE (x)	77.5	26.7	25.6	19.0	14.9	20.1	15.4	11.0	n/a	n/a	n/a
Norm PE @tgt price (x)	106.7	36.8	35.2	26.2	20.6	17.0	13.0	9.31	n/a	n/a	n/a
Dividend yield (%)	0.00	0.00	1.33	1.78	2.67	1.92	1.92	2.69	2.37	2.72	2.90
				<i>year to Dec</i>			<i>year to Dec</i>			<i>year to Dec</i>	
Per share data	FY03A	FY04A	FY05F	FY06F	FY07F	Solvency	FY03A	FY04A	FY05F	FY06F	FY07F
Tot adj dil sh, ave (b)	0.00	0.00	0.00	0.00	0.00	Net debt to equity (%)	-51.8	-5.03	-32.4	-37.9	-39.6
Reported EPS (KRW)	290.4	841.4	880.2	1181.9	1505.1	Net debt to tot ass (%)	-20.9	-2.54	-21.5	-24.7	-25.7
Normalised EPS (KRW)	290.4	841.4	880.2	1181.9	1505.1	Net debt to EBITDA	-2.36	-0.09	-1.20	-1.18	-1.21
Dividend per share (KRW)	0.00	0.00	300.0	400.0	600.0	Current ratio (x)	3.35	1.39	3.17	3.57	3.98
Equity FCF per share (KRW)	240.0	1298.2	579.9	778.2	832.7	Operating CF int cov (x)	-6.88	-31.2	-9.76	-9.28	-8.99
Book value per sh (KRW)	18414.0	35242.4	3643.3	4525.2	5630.3	Dividend cover (x)	0.00	0.00	2.63	2.95	2.51
				<i>year to Dec</i>						<i>year to Dec</i>	

Source: Company data, ABN AMRO forecasts

MODETOUR NETWORK: VALUATION METHODOLOGY

Economic Profit Valuation			W bn	%	Discounted Cash Flow Valuation			W bn	%
Adjusted Opening Invested Capital			12.4	8	Value of Phase 1: Explicit (2006 to 2011)			23.2	15
NPV of Economic Profit During Explicit Period			29.0	19	Value of Phase 2: Value Driver (2012 to 2028)			105.5	70
NPV of Econ Profit of Remaining Business (1, 2)			65.4	43	Value of Phase 3: Fade (2029 to 2045)			20.6	14
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)			44.6	29	Terminal Value			2.1	1
Enterprise Value			151.4	100	Enterprise Value			151.4	100
Plus: Other Assets			7.2	5	FCF Grth Rate at end of Phs 1 implied by DCF Valuator			4.3	
Less: Minorities			0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price			10.4	
Less: Net Debt (as at 31 Dec 2006)			0.0	0					
Equity Value			130.3	86					
No. Shares (millions)			4.2						
Per Share Equity Value			31016.17						
Current Share Price			22500.00						
Returns, WACC and NPV of Free Cash Flow									
Sensitivity Table									
		No of Years in Fade Period							
		15	18	20	23	25			
WACC	7.0%	45990.59	47136.72	47788.30	48578.25	49010.89			
	8.0%	40468.28	41299.85	41769.89	42339.33	42651.03			
	9.0%	35860.51	36465.87	36806.16	37218.12	37443.48			
	10.0%	31989.20	32431.31	32678.51	32977.57	33141.07			
	11.0%	28714.85	29038.74	29218.92	29436.74	29555.76			
Performance Summary					Phase 2 Avg (2012 - 2028)				
		2006	2007	2008					
Invested Capital Growth (%)		13.9	21.1	18.6	5.2				
Operating Margin (%)		10.5	10.6	10.8	12.5				
Capital Turnover (x)		5.4	6.0	6.2	5.5				

Source: ABN AMRO estimates

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

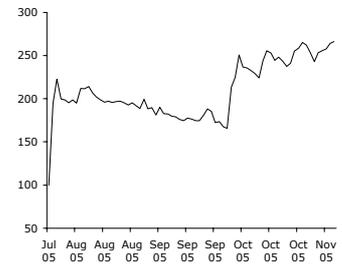
Modetour Network

Company description

Modetour is a wholesale tour operator that provides outbound package tours and airline tickets to retail travel agencies at a mark-up, made possible by bulk purchasing from suppliers. Package tours account for roughly 50% of net sales. The company was the first wholesale tour operator to be established in Korea, in 1989 and the second to go public, in Jul 2005. Modetour is second in terms of market share, handling 4% of Korea's outbound tourists per annum, following the market leader Hana Tour.

Buy

Price relative to country



Strategic analysis

Average SWOT company score: 3

Shareholder breakdown

Strengths

Modetour has the scale advantage, which is important in the tour operator market for bargaining power with suppliers. The company is the second-largest tour operator in Korea. **4**

Weaknesses

The company falls behind the market leader, Hana Tour, on brand equity, which is an important determinant of scale. **2**

Opportunities

The market for outbound tours is increasing with increased leisure time from the five-day work/school week and a rapidly aging population. **4**

Threats

Competition is intense with high returns on investment, and no entry barriers apart from scale. Increased competition is likely to bring down returns when the market matures. **3**

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

188-3 Euljiro-1-ga, Jung-gu, Seoul, South Korea

Website

www.modetour.co.kr

Shares in issue

4.2m

Freefloat

54%

Majority shareholders

Jong-ung Woo (13%), Seong-geun Hong (8%), Ki-chung Hong (5%)

Korea

Country view

Overweight

Country rel to Asia Pacific

We are overweight the Korean market in our regional portfolio. The market is benefitting from strong liquidity inflows from local investors who are increasingly channelling money into local assets using regular savings products. While we do not foresee a strong rebound in consumer spending, low interest rates and a rebound in export growth should help support the local economy in the near term. While valuations relative to history no longer look as attractive as they did previously, the market does not appear expensive and still trades at a sizeable discount relative to the rest of the region.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 3-

Broker recommendations

Supplier power

High. The global tour operator market is highly fragmented. Suppliers can request prepayment for purchases (airline tickets, hotel reservations) and can choose operators that guarantee volume. **3-**

Barriers to entry

Low. Scale is the only significant barrier to entry. Scale is increased as brand equity is enhanced. Marketing and promotion activities built brand equity. **2+**

Customer power

High. The tour operator market is highly fragmented. Customers have a wide range of choice, which is normally determined by the price, services and credibility of the tour operator. **3-**

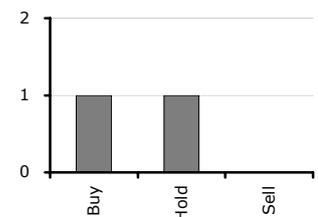
Substitute products

Widely available. The range of leisure activities is broadening as Korea's population ages, and leisure time increases. **2-**

Rivalry

High. Competition is intense as the barriers to entry are low. The market is seeing consolidation as more smaller retail agencies partner up with wholesale agencies like Modetour. **3+**

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg