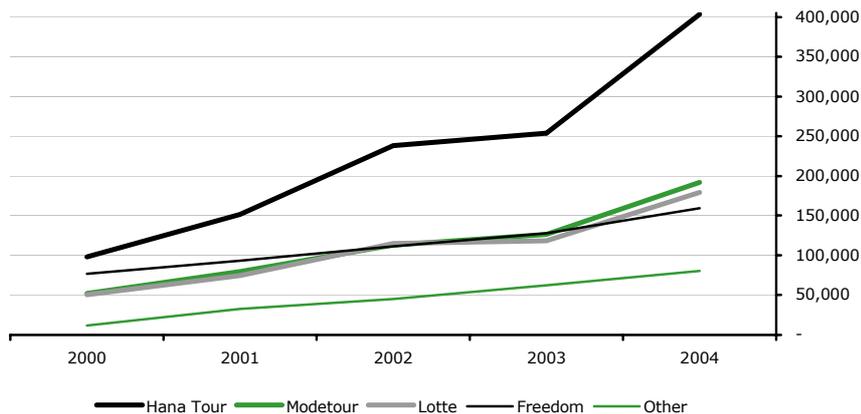


Seoul Search

Tour operators - don't miss the boat!

Tour operators present the perfect combination of exceptionally high returns and structural growth potential, in our view, which is why we believe Hana Tour and Modetour deserve to trade at significant premiums to the market.

Outbound tourists for Top 4 tour operators



Source: Korea Association of Travel Agencies

Looking for structural growth stories?

The tour operators are supported by structural growth - a rarity in the domestic consumption sector. We expect this to be driven mainly by increasing leisure time from the step-by-step adoption of a five-day working week and a rapidly ageing Korean population. We assume market growth of 13-15% for the next three years.

With exceptionally high returns?

Tour operators have all the makings of a high-return business. If the company has sufficient scale (which is determined by brand equity), bulk discounts with suppliers lead to significant economies of scale. This improves profit margins, as costs are relatively fixed. Labour cost is the single largest, controllable fixed cost. We believe these improving margins are relatively sustainable, despite an expected increase in competition from low entry barriers, because the market is still expanding.

Hana Tour and Modetour

Hana Tour and Modetour Networks are the first- and second-largest tour operators in Korea, respectively. Hana Tour - the first tour operator to go public in 2001 - has twice the market share of Modetour and, as a result, better returns on capital. However, we expect Modetour's scale, and therefore profitability, to improve dramatically following its recent IPO in July 2005 and the ramp-up in its marketing efforts. Modetour already appears to lead Hana Tour in terms of labour efficiency.

Modetour is top pick for value

We believe both Hana Tour and Modetour deserve to trade at premiums to the market, given their superior growth, exceptional ROIC and favourable ownership structures. Modetour's current discount to Hana Tour is excessive, in our view, and our target, which implies 38% upside, would represent a fairer value.

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

Korea

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Don't miss the boat!

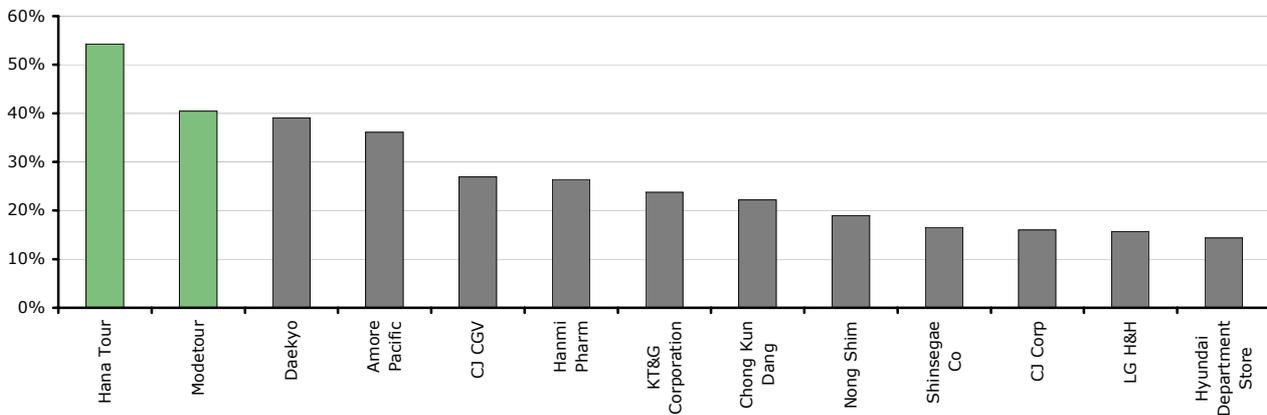
Welcome to the second edition of *Seoul Search*, ABN AMRO Korea's non-tech small/mid cap product. This publication is designed to help our investors profit from the investment opportunities in the more than 250 small/mid-cap companies (defined as between US\$100m and US\$1.5bn market cap) in the non-tech Korean stock universe.

In this edition, Gina Kim outlines her case for investing in Korea's fast growing outbound tour industry, players in which offer investors a rare and attractive blend of strong growth prospects and high returns on capital.

As we outlined in the inaugural edition of *Seoul Search*, a shortage of structural growth stories amid Korea's relatively mature domestic economy has led most investors in Korean small/mid caps to adopt a strong value bias. Outbound tourism is, however, one of the few segments of the economy that offers a compelling case for the growth investors, in our view.

The exceptional ROICs and ROEs that businesses in this industry generate also place them high on the list of investment criteria that we look for in companies that offer the prospect for exceptional long-term shareholder returns. Among the companies in our coverage, we expect Hana Tour and Modetour to deliver the highest ROICs in 2006.

Chart 1 : 2006F ROIC ranking of consumption stocks



Source: ABN AMRO forecasts

From a long-term shareholder returns perspective, the attraction of these two tour companies goes beyond them delivering high ROIC. As we have repeatedly cautioned investors, high returns among Korean small-caps are increasingly being dampened by excessive cash retention. We have traced this problem to Korea's tax structure, which penalises major shareholders for the dividends they receive from their companies. We believe that the ownership structure of these two tour companies, which is relatively widely dispersed, makes them much more likely to manage their capital efficiently over the long run.

Hana Tour is, in our view, easily one of the best quality Korean small cap stories. Unfortunately, as we have shown, there is little value in the stock at the moment. We have initiated coverage of Hana Tour with a Hold rating, with the view that the name

INVESTMENT VIEW

should be high on investors' radar screens, and that price pullbacks (bird flu offering one potential catalyst for downside) should be seen as buying opportunities.

Despite its relatively small market cap, we see the upside potential of Modetour as significant enough to warrant initiation of coverage. We have also included the stock in our updated top 3 small/mid cap list (page 5).

Our other updated top picks are Dongbu Insurance (Buy, target W19,000, current price W15,100) and Meritz Fire & Marine (Buy, target W54,000, current price W32,500). Colin Davis recently upgraded his earnings outlook and target prices for the insurance sector on the back of stronger-than-expected growth in the long term and general lines. These lines are the core drivers of shareholder value, in our view.

Although they have been removed from our top three list, Daekyo (Buy, target W95,000, current price W79,400), Chong Kun Dang (Buy, target W40,000, current price W40,250), and LS Industrial (Buy, target W33,000, current price W30,300) remain on our Buy list..

Updates to the rest of the *Seoul Search* universe of small/mid caps can be found on pages 21-23.

As always, we welcome your valuable feedback on how we can ensure that *Seoul Search* a useful part of your investment decision making process.

Best regards,

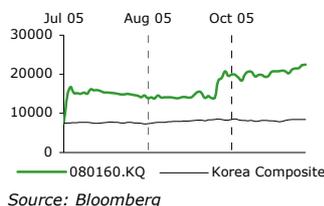
Scott Gibson

Head of Research

Top 3 small/mid-cap picks

Mode Tour (080160 KS) – Buy (Analyst: Gina Kim, 82 2 2131 6466)

Price	W22500
Target price	W31000
Upside to Target	38%
Market cap (US\$m)	90.43
Ave. Daily Turn. (US\$m)	0.8
Foreign ownership	7.2



Source: Bloomberg

What it does:

Modetour is a wholesale tour operator providing outbound package tours and airline tickets to retail travel agencies at a mark-up, made possible by bulk buying 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 July 2005. Modetour is the second in terms of market share, handling 4% of Korea's outbound tourists per annum, following market leader Hana Tour.

Standard ratios

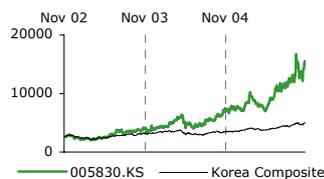
	Modetour				
Valuation	FY02A	FY03A	FY04A	FY05F	FY06F
EV/sales (x)	1.2	1.0	0.8	2.3	1.5
EV/EBITDA (x)	11.9	33.6	7.6	24.0	14.3
EV/EBITDA @ tgt price (x)	30.4	85.5	18.6	32.6	20.1
EV/EBIT (x)	13.2	49.0	8.2	25.5	14.8
EV/invested capital (x)	48.4	15.3	4.3	9.6	7.4
Price/book value (x)	35.7	24.4	12.8	5.5	5.0
Equity FCF yield (%)	0.0	0.0	0.1	0.0	0.0
Normalised PE (x)	42.5	77.5	26.7	25.6	19.0
Norm PE @tgt price (x)	58.5	106.7	36.8	35.2	26.2
Dividend yield (%)	-	-	-	1.3	1.8

Why it's a top pick

- The stock is trading at par with other consumption names, despite its strong structural growth potential.
- Premium valuations look justified by the combination of exceptionally high ROIC, ROE and growth.
- The discount to its peer Hana Tour is excessive, despite having similar growth prospects.
- It has an investor-friendly ownership structure, in our view, which we expect to lead to efficient capital management.

Dongbu Insurance (005830 KS) - Buy (Analyst: Colin Davis, 82 2 2131 6469)

Price	W15400
Target price	W19000
Upside to Target	23%
Market cap (US\$m)	1,043.37
Ave. Daily Turn. (US\$m)	4.0
Foreign ownership	28.6



Source: Bloomberg

What it does:

Dongbu Insurance is South Korea's third-largest property and casualty insurer. The company writes pure savings-type plans, health and casualty insurance, auto insurance, corporate and personal property insurance, liability insurance, etc. The company has the lowest cost structure in the industry and is often a benchmark for Korea's third-tier insurers. Dongbu Insurance is a central part of its chaebol group and has historically been one of its most profitable companies.

Standard ratios

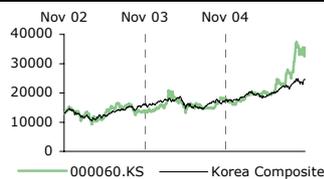
	Dongbu Insurance				
Valuation	FY02A	FY03A	FY04A	FY05F	FY06F
Adj. P/E (x)	9.9	15.3	7.2	6.3	5.5
Adj. P/B (x)	1.9	1.4	1.2	1.1	0.9
Adj. ROE (%)	19.4	10.7	18.4	18.2	17.8
Adj. ROA (%)	2.8	1.6	3.0	2.9	2.8
Solvency ratio (%)	179.0	225.0	218.2	231.9	243.2
Adj. investment yield (%)	3.6	5.0	6.1	5.3	5.2
Insurance margin (%)	0.9	-2.3	-1.3	-0.3	-0.7
Dividend yield (%)	1.6	1.6	2.6	3.2	3.9

Why it's a top pick

- Dongbu Insurance is non-unionised like Samsung F&M. This gives it a lower cost base and, hence, a lower expense ratio, which averages 1.6ppt less than that of similar-sized peers.
- The company is also a strong underwriter. It had the lowest loss ratios in both the long-term and auto lines from April-August 2005.
- Dongbu Insurance grew its profitable general line at 17.4% yoy and its risk-based long-term premiums at 15% yoy from April-August.
- Dongbu Insurance trades in line with its peers on a PB basis, but trades at a large discount to peers on a PE basis, due to its higher profitability.

Meritz Fire & Marine Insurance (000060 KS) - Buy (Analyst: Colin Davis, 82 2 2131 6469)

Price	W35500
Target price	W54000
Upside to Target	52%
Market cap (US\$m)	291.47
Ave. Daily Turn. (US\$m)	0.6
Foreign ownership	38.3



Source: Bloomberg

What it does:

Meritz Fire and Marine is South Korea's fifth-largest property and casualty insurer. The company writes the same type of policies as its bigger peers: pure savings-type plans, health and casualty insurance, auto insurance, corporate and personal property insurance, liability insurance, etc. Meritz F&M just acquired Meritz Securities and appears to be targeting growth more aggressively than it has historically by moving aggressively into the bancassurance channel.

Standard ratios

	Meritz Fire & Marine Insurance				
Valuation	FY02A	FY03A	FY04A	FY05F	FY06F
Adj. P/E (x)	6.2	9.0	8.4	6.7	4.2
Adj. P/B (x)	1.0	0.9	0.8	0.7	0.6
Adj. ROE (%)	18.1	10.9	10.4	11.7	16.5
Adj. ROA (%)	2.2	1.4	1.3	1.4	2.0
Solvency ratio (%)	163.4	183.4	173.5	185.2	203.7
Adj. investment yield (%)	5.1	6.2	5.3	4.9	4.8
Insurance margin (%)	-2.0	-4.3	-3.6	-2.7	-1.6
Dividend yield (%)	2.8	2.8	2.8	2.8	4.2

Why it's a top pick

- We expect charges to fall from W25bn this year to W8bn next year, due to one-offs.
- The company is growing its value-accretive commercial and 'long-term' lines quickly (13% and 29% yoy respectively in 2Q05) and is shrinking its unprofitable auto line (-7%).
- Meritz trades at a large PB and PE discount to its rivals, especially on an FY06F basis.
- We forecast its adjusted ROE will rise from 12% in FY05 to 17% in FY06.

Source for all tables above: Company data, ABN AMRO estimates

Koreans going global

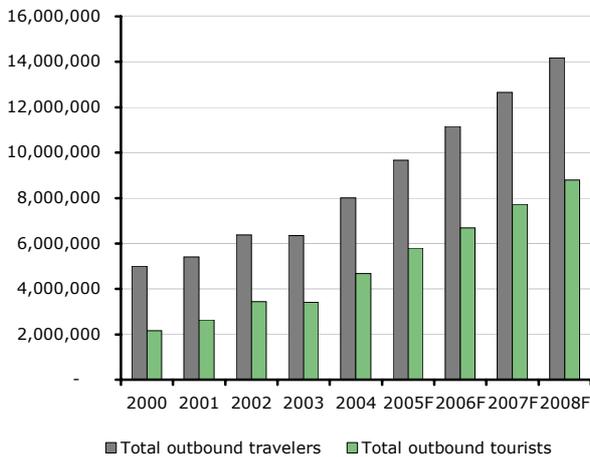
We expect macro environment for tour operators to remain favourable. An ageing population, and five-day work week are some of the factors that we believe will continue to drive growth going forward.

Market growth backed by favourable macro outlook

Korea's outbound tour market has expanded rapidly during the past few years due to various favourable regulatory and lifestyle changes. We believe these changes – which are ongoing and include an ageing population and increased leisure time due to the expansion of the five-day work week – will continue to drive growth going forward. Our growth assumption for the tour market is 13-15% for the next three years.

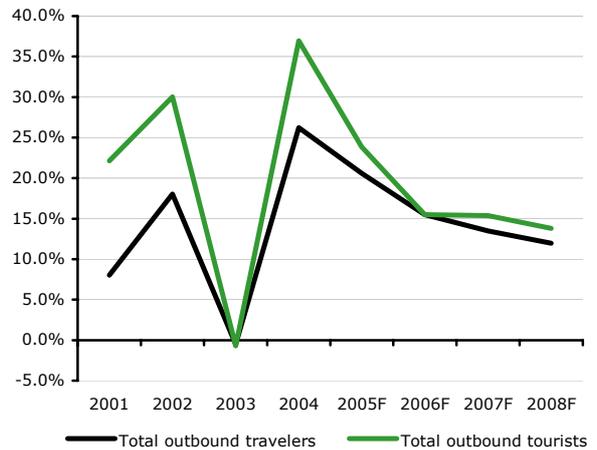
Structural support for the tour operators continues

Chart 2 : Outbound travellers and tourists



Source: KNTA, KATA, ABN AMRO forecast
 Note: 'travelers' refers to total outbound headcount. 'Tourists' refers to outbound travelers that have indicated touring as travel purpose.

Chart 3 : Yoy growth



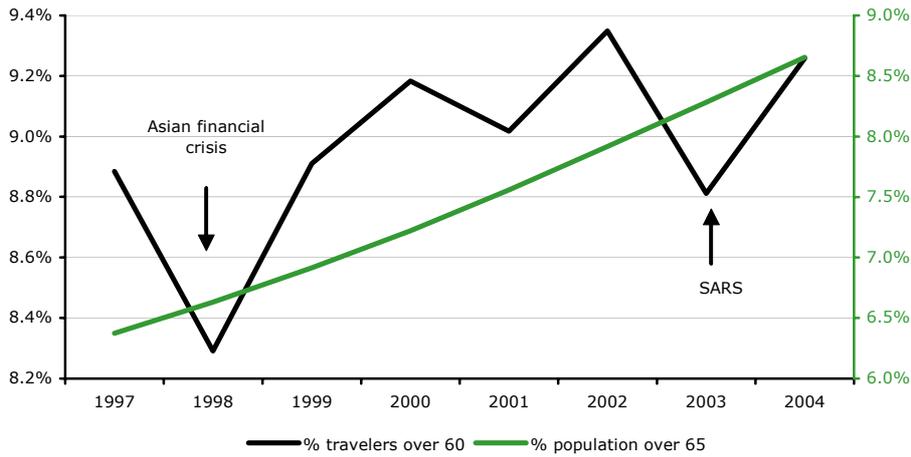
Source: KNTA, KATA, ABN AMRO forecast
 Note: 'travelers' refers to total outbound headcount. 'Tourists' refers to outbound travelers that have indicated touring as travel purpose.

Ageing population good for tourism

A rapidly ageing population is likely to be positive for the tour industry using the simple logic that retirees have more time to travel. This appears to fit with the trend seen during the past eight years – the CAGR of tourists aged over 60 was 113% (which is higher than the total CAGR of 111%) and the portion of travellers over the age of 60 increased by 0.3ppt.

Ageing population means more leisure time

Chart 4 : Percentage of aged travellers vs percentage of aged population



Source: National Statistics Office, KNTA

Five-day work/school week

According to a recent survey by the Korea Tourism Organisation released this month, 5.8% of Koreans have vacationed abroad since the introduction of the five-day work week in government offices and corporates with number of employees exceeding 1,000. This represents a 0.4ppt increase on a year-over-year basis, and is not insignificant considering that less than 10% of the national workforce lived without the five-day work week until June 2005.

Five-day work week = more leisure time

Given that the five-day work week was expanded to corporates with more than 300 employees in July this year and is expected to be implemented by all companies by 2011, we believe the positive impact on outbound tourism will continue.

More corporates must adapt five-day work week

Similar to the five-day work week is the five-day school week. Korean schools have run a pilot scheme giving pupils one Saturday off per month for the past year. Now the Ministry of Education plans to double this to two Saturdays off, starting in March 2006, and gradually moving to every Saturday off by 2007. We believe this gradual implementation of the five-day school week will increase the volume of outbound tourism by school children to the closer Asia-Pacific region. Already, travelers under 20 accounted for 11% of total travelers to the Asia-Pacific region in the first nine months of 2005 versus 10% in 2004, according to the KNTA.

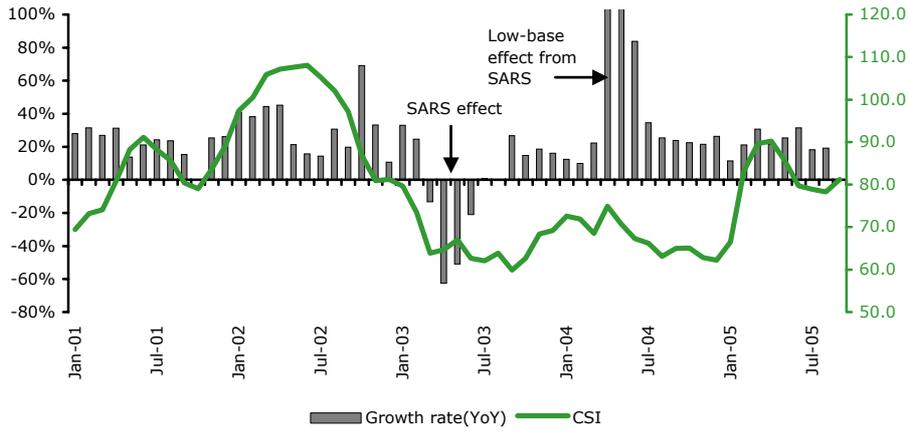
More kids expected to have Saturdays off

Defensive industry

Chart 5 shows there is little correlation between domestic consumption and outbound tourism. This supports the view that structural factors are driving the growth in tourism. Should the ongoing recovery in domestic consumption fail to sustain momentum, we would not expect tourism to be significantly affected.

Tourism faces limited downside from economic downturn

Chart 5 : YoY growth in number of outbound tourists vs CSI



Source: Korea National Travel Organisation

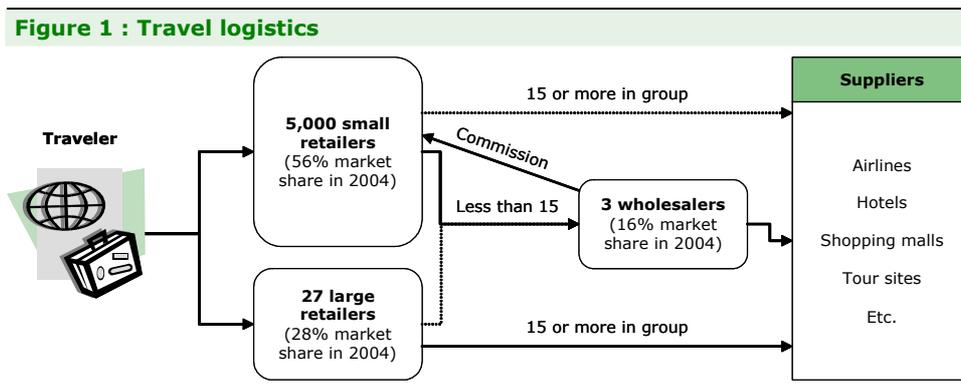
High-return business

Tour operators have all the makings of a high return business. They have low fixed costs and low capital requirements, and benefit from significant economies of scale that are largely determined by brand equity.

No scale, no sale

The Korean outbound tour operator industry can be divided into three categories: 5,000 small retail agencies, 27 large retail agencies and three wholesale agencies (which are associated with smaller retail agencies). The wholesalers, in order of market share, are Hana Tour, Modetour Networks and OK Tour (the low-end package tour provider, in which Hana Tour has a 50% equity stake). The large retailers and wholesalers – the 'Top 30' in market share with monthly tourist data released by the Korea Association of Travel Agencies (KATA) – account for over 30% of the outbound tour market.

Korean tour operators: retailers and wholesalers



Source: Hana Tour

Retail travel agencies

Retail agencies sell services directly to the consumer; they may be viewed as commissioned middlemen for the suppliers of travel services. The Korean retail travel agents are typically categorised into small or large retail agencies. Large retail agencies are those included in the 'Top 30' and the small retailers are the rest of the 5,000.

Retailers sell directly to travellers

Wholesale travel agencies

Wholesale agencies primarily assemble and sell packages of services, such as air and land arrangements. The consumer is the individual traveller, and the traveller must normally purchase the package through a retail agency. Wholesale agencies earn their income by securing blocks of reservations and reselling them to retail agencies at a markup.

Wholesalers cater for small retailers

Scale leads to bulk discount from suppliers

Suppliers such as airlines and hotels, deal with wholesalers rather than selling only to the retailers directly because wholesalers tend to generate advance sales to the suppliers in bulk. The preference for scale is reflected in the '15+1 free of charge' term provided by the suppliers. For every 15 travellers, the suppliers will provide for one additional traveller free of charge – equivalent to a 6% discount.

Bulk discounts from suppliers available

Wholesalers vs small retailers – partners

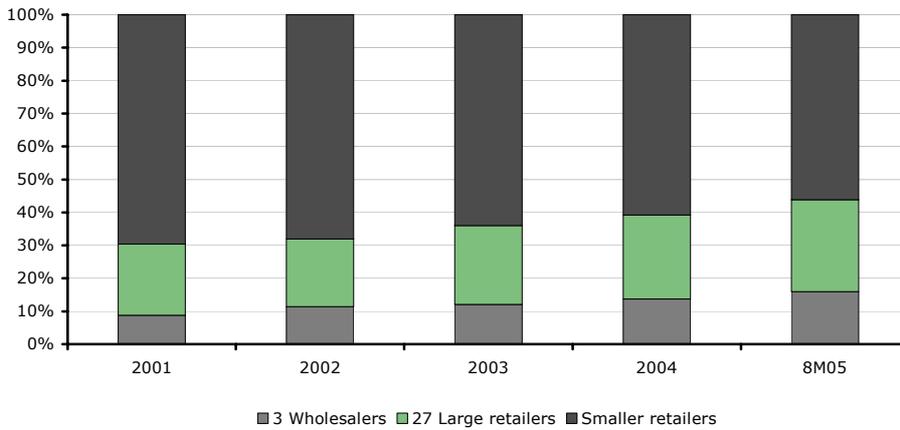
This gives wholesalers a definite competitive advantage over small retailers who lack the ability to build up significant demand. This is the reason for an increasing number of smaller retailers dealing directly with wholesalers, which, in turn, explains the wholesalers’ increasing market share.

Wholesalers supply small retailers

Scale is also the key for arranging charter flights, for which cost is 30% lower than scheduled flights – another option that wholesalers can take advantage of.

As Chart 6 shows, wholesaler market share versus small retailers has been increasing steadily over the years. This is mainly due to the scale advantage that wholesalers have over the smaller retailers.

Chart 6 : Market share breakdown



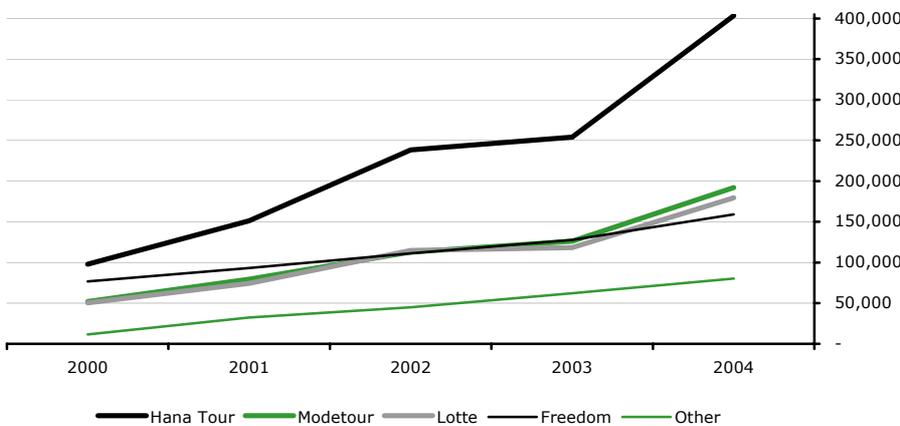
Source: KATA

Wholesalers vs large retailers

Wholesalers should have a scale advantage over the large retailers as well, from partnering up with the thousands of smaller retailers – all direct competitors of the larger retailers. In essence, wholesalers as a group are only competing with the large retailers, while large retailers are competing with both wholesalers and smaller retailers.

Wholesalers are in competition with large retailers

Chart 7 : Outbound tourists for top four tour operators



Source: KATA

Lotte Tours, which is the leading retailer, had only 180k outbound tourists in 2004 versus Hana Tour’s 403k and Modetour’s 192k. De Jayoo Tours, backdoor-listed, formerly Freedom Tours, is the second largest retailer with 159k tourists in 2004.

Chart 7 above shows the definite distinction between tour operators that have gained critical mass and the ones that have not. The gap in scale appears to be widening between the top four players and the rest.

Brand equity determines scale...

Given the importance of scale to wholesalers, the next logical question would be ‘What determines scale?’ We believe the answer is brand equity.

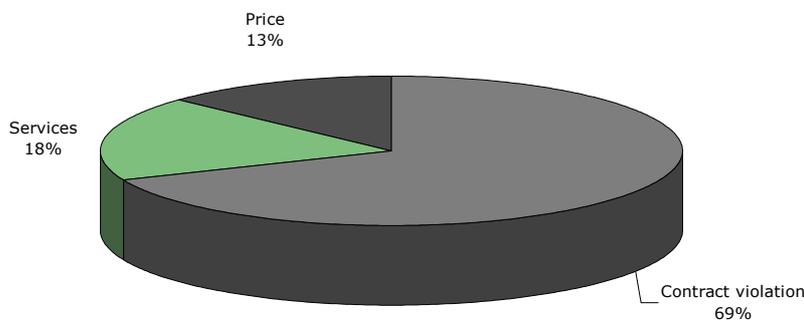
The large tour operators – which do not have significant pricing power over each other due to similar scale economies – compete on brand. This is because potential package tourists, who are offered a selection of similarly priced tours from various tour operators, are likely to chose the brand that they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

Brand is the key selection factor...

Such credibility issues regarding tour operators arose after the Asian financial crisis in 1997-98, which resulted in numerous bankruptcy filings by tour operators. Tourists were at risk of having trips cancelled without a refund in many cases as there was limited information regarding the financial status of their tour operators. According to a consumer complaints survey for package tours by the Korean Consumer Protection Board in 2003, close to 70% of complaints by package tourists involved contract violations made by tour operators, mainly cancellation of trips.

... because travellers have been ‘burned’ in the past

Chart 8 : Complaints by tourists regarding tour operators in 2003



Source: Korea Consumer Protection Board

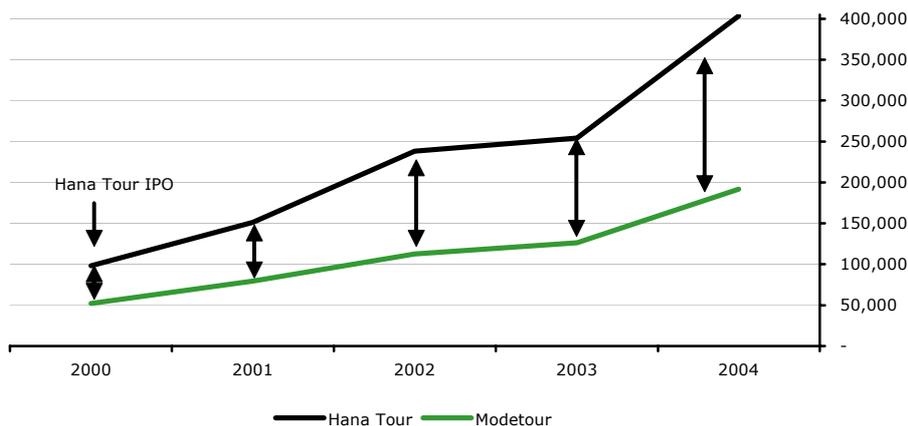
An IPO can be a good way of publicly announcing that a tour operator is, at least, financially viable; this is exactly what Hana Tour did in 2000.

An IPO says ‘we’re financially reliable’

Hana Tour is the second wholesaler to be established in Korea. Despite its later entry, the company went from a minor travel agent to market leader due, in large part, to increased brand awareness resulting from its IPO. Since Hana’s going public in Nov 2000, the difference in the number of outbound tourists per year between Hana Tour and the then privately-owned Modetour Networks (formerly Gugil Tour) – the first wholesale agency in Korea – has more than quadrupled.

Hana Tour benefited from IPO publicity

Chart 9 : Gap in outbound tourists – Hana Tour and Modetour



Source: Korea Association of Travel Agents (KATA)

... and marketing builds brand equity

Apart from the benefits of being a listed company, marketing is the other significant driver of brand equity, in our view. Large retailer competition is almost entirely marketing-driven, given that they cater for the general public. Marketing expenses for these companies range from 14%-25% of net sales or 2-4% of billing. Wholesalers also rely on marketing to enhance brand equity to the consumers and to establish and maintain partnerships with their small retail partners, but since small retailers effectively share the burden, marketing expenses for wholesalers is significantly lower versus large retailers. Hana Tour and Modetour’s marketing expenses are only 4% and 2% of net sales respectively (or 0.5% and 0.2% of the total billing amount).

Marketing correlated to brand equity

Low capital requirement

Capital requirements are low and, therefore, do not present a major entry barrier. The only significant capital investment for tour operators is the BSP (Billing & Settlement Plan) collateral which is essentially a prepayment for airline ticket purchases.

Low capital requirements

According to the IATA (International Air Transport Association), BSP collateral equivalent to 23 days worth of international air ticket sales amount must be provided by the travel agent. Prepayment for any ticket purchases exceeding the collateral value must be submitted a week in advance.

Both BSP collateral and additional prepayment (ie, working capital) amounts are directly related to the billing amount of the tour operator and, therefore, cannot be controlled by the tour operator.

Hana Tour vs Modetour

We compare the two wholesalers, in terms of the factors driving high returns. Hana Tour has higher margins due to greater scale, but we expect Modetour’s scale to improve with greater marketing efforts.

Hana Tour has the relative scale advantage...

Apart from scale, which determines bulk discounts, the portion of package tour sales out of total sales is a key determinant of profitability for wholesalers. This is because package tour sales generate higher margins versus simple airline ticket sales, which is the other major source of revenue for tour operators.

Package tour revenue contribution important...

Hana Tour and Modetour state that average package tour margins before retail commissions are close to 25% of the billing amount (or selling price to consumer). For airline ticket sales, the profit margins are also similar for Hana Tour and Modetour at 9%.

... as margins are higher

Figure 2 : Profitability of package tours and airline ticket sales for wholesalers

Package tour profitability	Consumer price	Airfare + Land services	Airfare mark-up	Net sales	Retail commission	Profit contribution
Same for both Hana Tour & Mode tour	100	65 + 15	65 * 9%	25	9	16
Air ticket sales profitability	Consumer price	Airfare	Net sales	Retail commission	Profit contribution	
Hana Tour	100	91	9	6	3	
Modetour	100	91	9	7	2	

Source: Company data

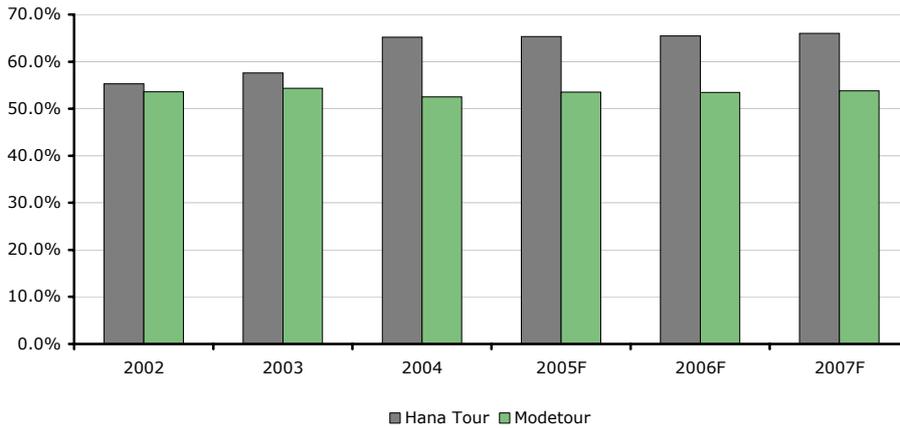
Table 1 shows that actual net proceeds (net sales less retail commission included in SG&A expenses) as a percentage of the total billed amount in 2004 were higher for Hana Tour by roughly 1.5ppt. This results from the higher percentage of net proceeds from package tours – largely due to additional airline and accommodation discounts enjoyed by Hana Tour on account of its greater scale. Chart 10 shows that Hana Tour had a significantly higher revenue contribution from package tours especially in 2004..

Table 1 : Profit margin comparison

2004A	Hana Tour	Modetour
(Net sales – SG&A commission)/billing amount	6.4%	4.9%
Historical package net sales % of billing	14.6%	8.1%
Historical air ticket net sales % gross	7.4%	8.7%

Source: Company data, KATA

Chart 10 : Package tour sales portion of total sales



Source: Company data, ABN AMRO forecast

... but Modetour’s absolute scale is improving

Although Modetour’s revenue contribution from package tours may not be able to catch up to that of Hana Tour, we believe its profitability will rise significantly as the number of package tourists handled increases.

Hana Tour’s market share in percentage terms is currently twice that of Modetour and has been for the last five years. In absolute terms, Hana Tour handled over 400k tourists in 2004, while Modetour’s current number of tourists is close to the 200k mark. This is half the number of Hana Tour tourists in 2004, but more than the volume handled by Hana Tour just after its IPO in 2001.

Following its IPO in July 2005 and with its new aggressive marketing strategy (see below), we expect the number of tourists handled by Modetour in 2007 to be comparable to Hana Tour’s 2004 level. Subsequently, all else being equal in two years’ time, Modetour should be able to enjoy a similar level of supplier discounts to Hana Tour today, which would feed through as a significant improvement in profitability.

Does Modetour’s rapid growth imply that competition is heating up for Hana Tour? Certainly. Both Modetour and the fourth player, Freedom Tour, went public in 2005. We now expect these two companies to ramp up marketing activities aggressively in order to expand market share. However, because the demand and, hence, the overall tour market, are also expanding rapidly, we believe Hana Tour can continue to grow at a fast pace, without feeling the ‘heat’ in the medium term.

Hana Tour has a higher package tour sales portion versus Modetour

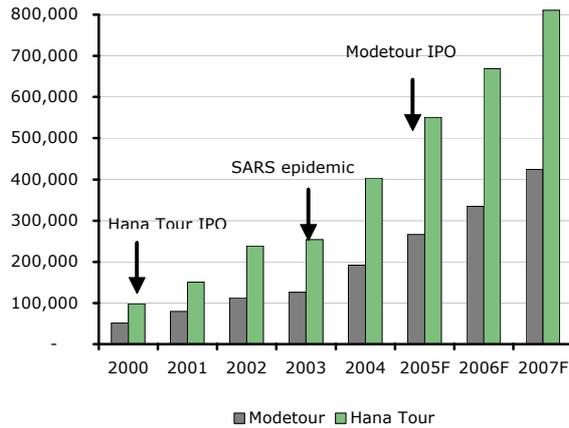
Modetour's profitability will also improve with scale

Modetour's scale is at level Hana Tours was at 3 years ago

Modetour will reach Hana Tour's current scale in 3 years, in our view

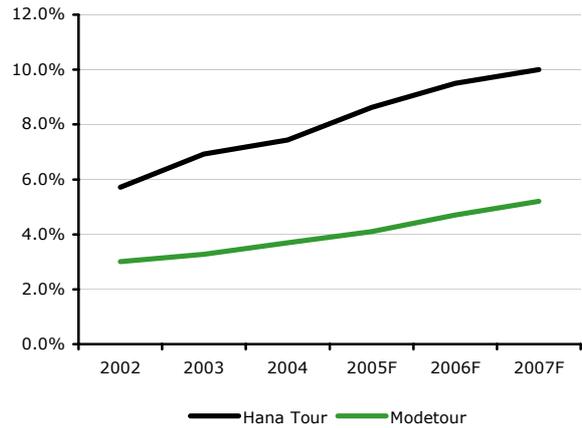
Competition is heating up but structural growth will mean there's plenty for all for the time being

Chart 11 : Outbound tourists



Source: Company data, KATA, ABN AMRO forecast

Chart 12 : Market share



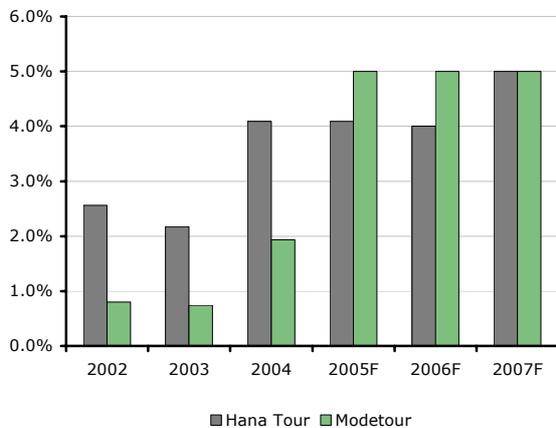
Source: Company data, KATA, ABN AMRO forecast

Modetour’s marketing is becoming more aggressive

The difference in scale between the two companies may be attributable to a relatively passive marketing strategy by Modetour. Modetour has historically spent less on marketing versus Hana Tour as a percentage of both net and gross sales, as well as in absolute amount. In 2004, Modetour only spent W0.6bn on marketing (2% of net sales) versus Hana Tour’s spending of W3.3bn (4% of net sales). Modetour plans to increase marketing spend dramatically starting 2005, allocating W1.6bn of IPO proceeds into brand equity enhancement.

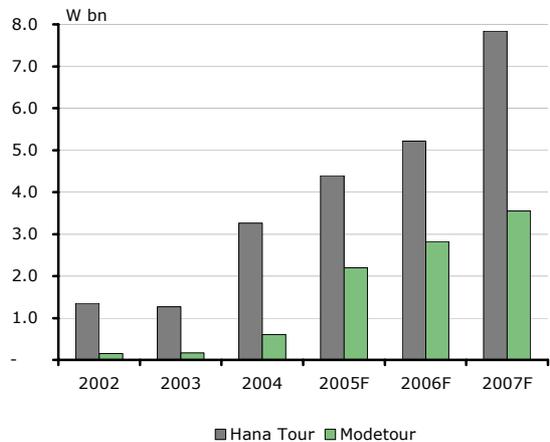
Modetour expects to ramp up brand marketing activities, which will lead to better scale

Chart 13 : Marketing spend as a percentage of sales



Source: Company data, ABN AMRO forecast

Chart 14 : Absolute marketing spend



Source: Company data, ABN AMRO forecast

Labour efficiency

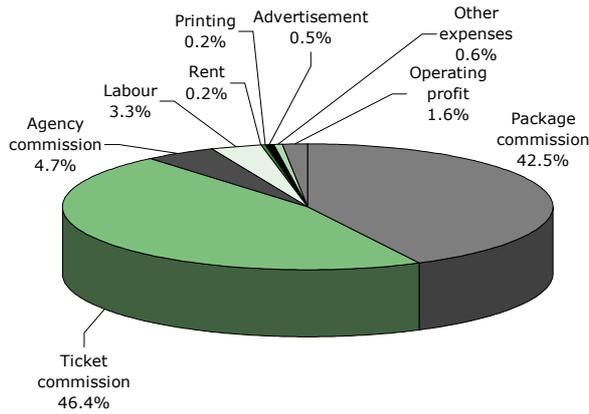
Labour efficiency is a key driver of a tour operator’s profitability, as it is the single largest controllable fixed-cost item (30% of net sales for Hana Tour and 35% of net sales for Modetour). This is one area where Modetour leads Hana Tour.

Labour cost is the largest fixed-cost item

Firstly, Hana Tour’s total labour costs relative to total sales are higher than Modetour’s. This is shown in the fact that Hana Tour’s labour cost as a portion of billing amount in 2004 was higher at 3.3% versus 2.8% of Modetour.

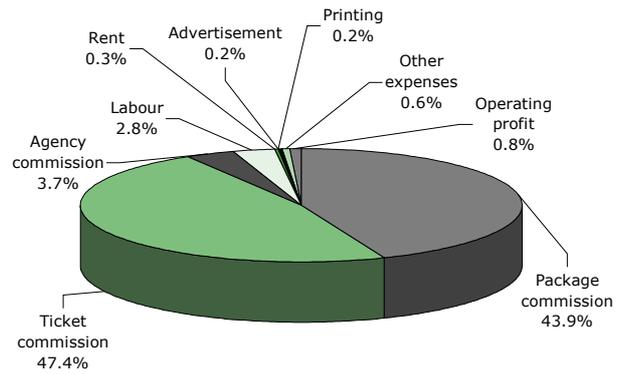
Hana Tour’s efficiency appears lower than Modetours...

Chart 15 : Hana Tour's billing amount breakdown



Source: Company data, KATA

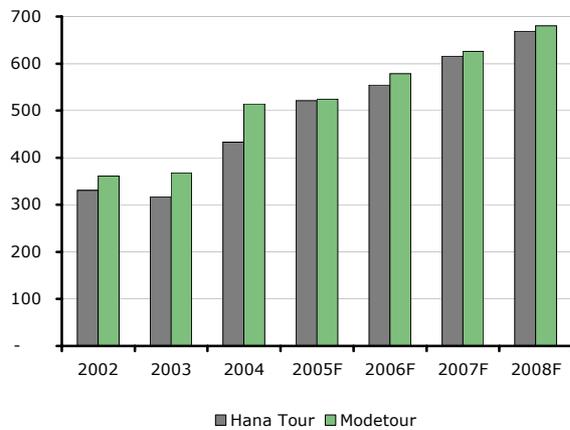
Chart 16 : Modetour's billing amount breakdown



Source: Company data, KATA

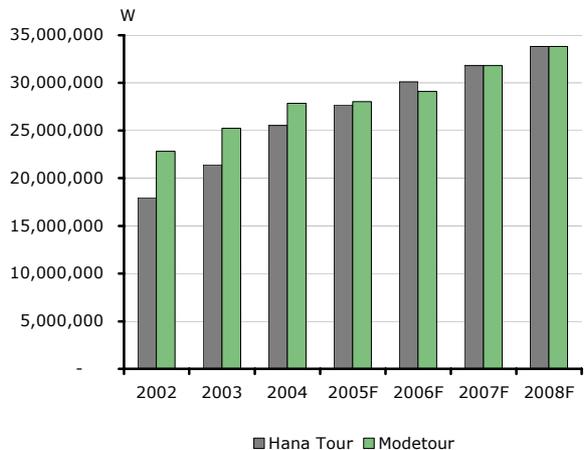
Hana Tour's labour efficiency per employee is lower than Modetour's. Charts 17 and 18 show that, during 2002 and 2003, tourists per employee for Hana Tour was less than that of Modetour's 370 and 515. However, Hana Tour's cost per employee was also lower, and the overall result was that sales versus cost per employee – an indicator of labour efficiency – was higher compared with Modetour. In 2004, however, we can see that, while the gap between number of tourists handled per employee widened, the difference in cost per employee narrowed, resulting in Hana Tour's higher labour cost as a portion of billing amount.

Chart 17 : Tourist per employee



Source: Company data, ABN AMRO forecast

Chart 18 : Cost per employee



Source: Company data, ABN AMRO forecast
 Note: labour cost calculations include value of stock option bonuses for Hana Tour employees, which are accounted for separately on the company's income statement

The small difference in cost per employee is noteworthy given that Modetour is unionised, whereas Hana Tour is not. We believe it may be explained by the fact that Modetour also has an employee stock compensation plan, like Hana Tour, and therefore employees can forego wage increases to a certain extent and look to capital gains for compensation. Hana Tour offers stock options to all employees as bonuses each year, while Modetour has an ESPP (Employee Stock Purchase Plan).

... despite Modetour being unionised

We believe that the recent deterioration of labour efficiency could be an indicator that Hana Tour is now beyond its optimal point of scale economy as far as labour efficiency is concerned. As we expect Modetour will reach Hana Tour's current scale in the next two years, we have forecast conservatively that Modetour's tourists handled per employee and cost per employee would rise to Hana Tour's levels.

Is Hana Tour's scale beyond economy?

Modetour is top pick for value

We believe both stocks deserve premium valuations given superior growth and ROIC as well as favourable ownership structures. Hana Tour is fairly valued in our view, but we see 38% potential upside for Modetour.

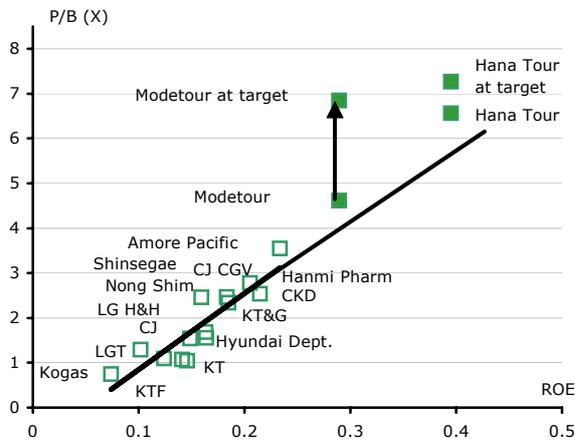
Premium deserved vs consumption plays

From Charts 19 and 20, which show the relatively high correlation between ROE and P/B for consumption plays for 2006 and 2007, we can see that Hana Tour is trading at a 32% premium to the trend line for the consumption sector – suggesting the market is pricing in Hana Tour’s superior growth prospects. Modetour, on the other hand, is trading on the trend line, despite sharing similar growth prospects as Hana Tour. In fact, Modetour is only trading at roughly half of Hana Tour’s P/B based on 2006F earnings. We believe this valuation gap between Hana Tour and Modetour is excessive.

Modetour's discount to Hana Tour appears excessive...

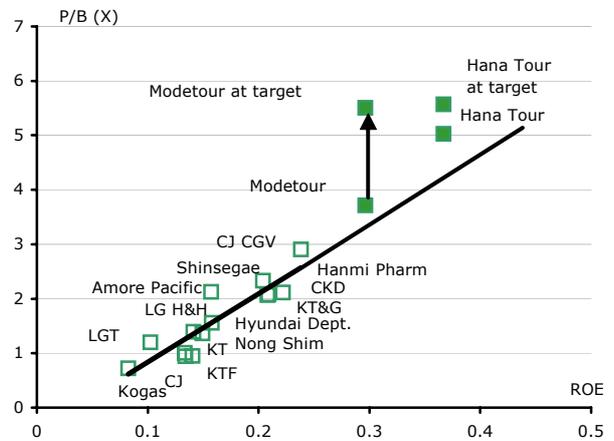
Based on our target prices for the respective companies, Hana Tour still has potential upside from current levels, but Modetour would trade at a lesser discount to Hana Tour – 2006F P/B of 6.9x compared with Hana Tour’s 7.3x – to reflect the difference in returns on equity.

Chart 19 : 2006F ROE vs P/B



Source: ABN AMRO forecasts

Chart 20 : 2007F ROE vs P/B



Source: ABN AMRO forecasts

Hana Tour not expensive, but Modetour is cheap

We believe the valuation gap is excessive based on parameters other than P/B, as shown in Table 2. Modetour is trading at 20-60% discount for the different valuation multiples. The gap in FCF yield may be partly explained by the significantly lower FCF/earnings ratio of Modetour. This is mainly due to the extra working capital that Modetour requires to 'top-up' BSP collateral, in our view.

... based on various valuation multiples

Table 2 : Valuation – Hana Tour vs Modetour

2006F	Modetour Networks	Hana Tour
PE (x)	19.0	19.1
P/B (x)	5.0	6.8
EV/EBITDA (x)	13.0	13.2
FCF yield	3.5%	4.3%
ROE	28.9%	39.5%
ROIC	40.4%	58.6%
FCF/earnings	66%	81%
EBITDA margin	10.8%	18.8%
Operating profit margin	10.5%	16.2%
Net profit margin	8.8%	13.9%
Net cash/market cap	8.0%	4.9%
Market cap (W bn)	94.5	355.9

Source: ABN AMRO forecasts

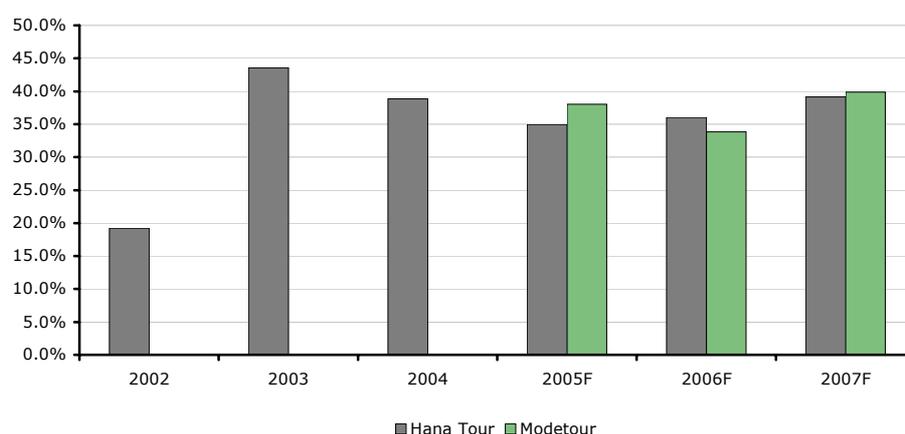
Dividend policy and treasury buyback

Hana Tour has a relatively clear dividend payout policy: one-third of net profit is normally set aside for dividends. The payout has been 40-45% for the last two years. For Modetour, 2005 will be the first year of dividends and payout level has yet to be decided. However, we believe management will use Hana Tour as a benchmark. At our 2006F DPS assumptions, both stocks have a yield of 2%.

In terms of treasury buybacks, Hana Tour's management stated that it plans to buy back roughly 5% of shares outstanding each year for stock options exercised by employees. The company sets aside 33% of net profit for treasury buybacks. Modetour, on the other hand, has yet to decide on a buyback policy.

Hana Tour has transparent capital management, while Modetour is just getting started

Hana Tour buys back 5% pa to back employee stock options

Chart 21 : Dividend payout as a percentage of net income

Source: Company data, ABN AMRO forecasts

Favourable ownership structure

Both Hana Tour and Modetour have favourable ownership structures from an investment perspective, in our view. Their major shareholder stakes are relatively small at 10% for Hana Tour and 13% for Modetour and, as a result, free float is high. This may explain the two companies' relatively high and clear dividend payout, in contrast to many highly cash-generative Korean small-mid cap companies which are tightly controlled by family members who have no need for dividends.

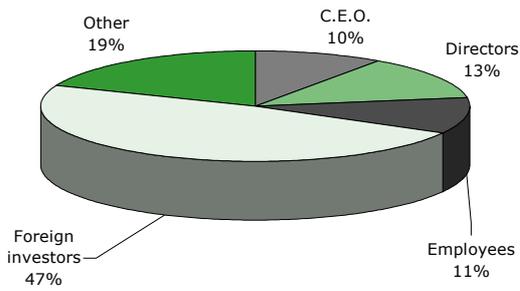
High free float and employee participation

VALUATION COMMENT

Apart from foreign ownership, the two companies share a similar shareholder structure, with management and employee participation. We believe employee ownership is also a favourable aspect, given that labour efficiency is one of the key drivers of profitability. Modetour appears to be a relatively undiscovered name with foreign investors as of yet with foreign ownership only at 8%, up from 5% just after the IPO. Hana Tour, on the other hand, is well known to foreign investors, who own 47% of the company.

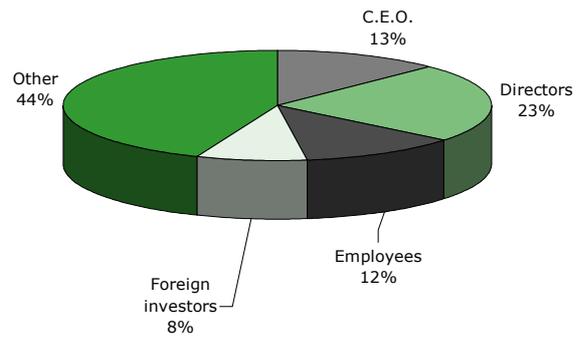
Modetour... yet an undiscovered name?

Chart 22 : Hana Tour shareholders



Source: Company data

Chart 23 : Modetour shareholders



Source: Company data

Valuation profile

Chart 24 : ROAE - 2005F

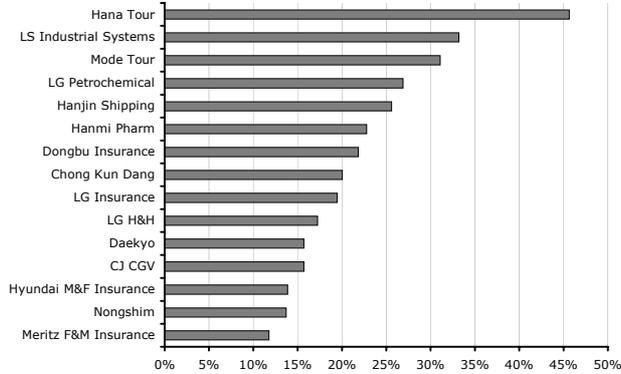


Chart 25 : PE (x) - 2005F

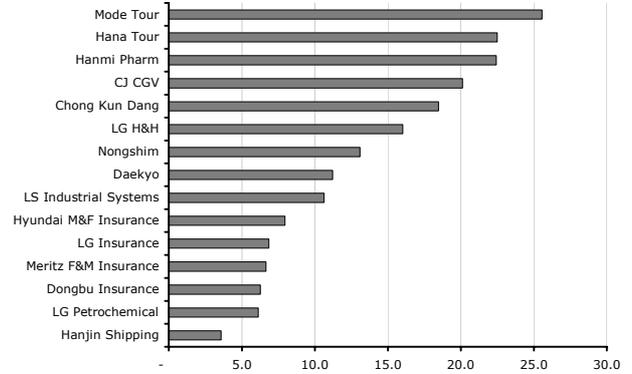


Chart 26 : ROIC - 2005F

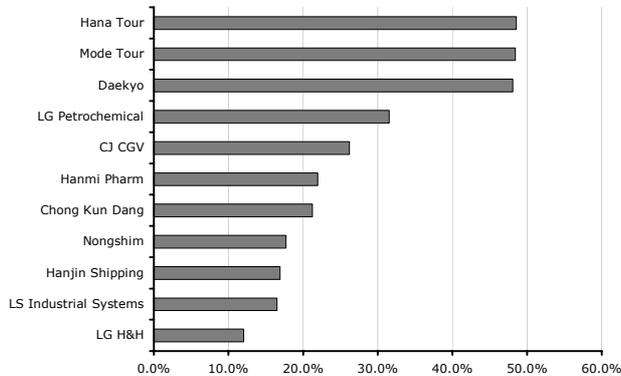


Chart 27 : PBR (x) - 2005F

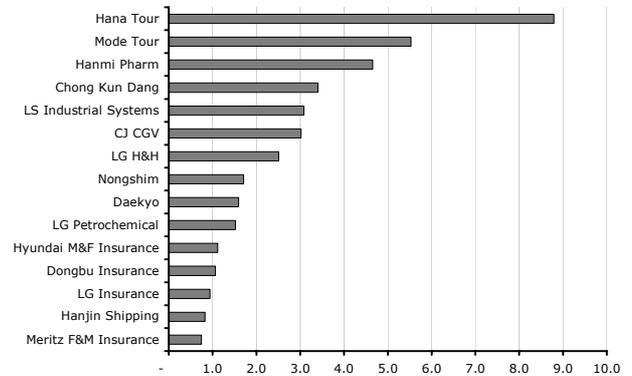


Chart 28 : Two-year EPS CAGR 2004-06F

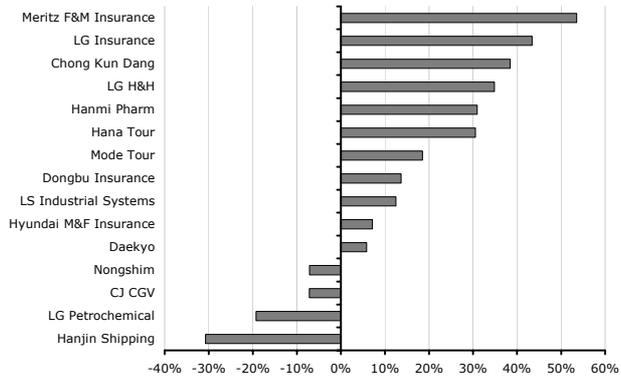


Chart 29 : EV/EBITDA (x) - 2005F

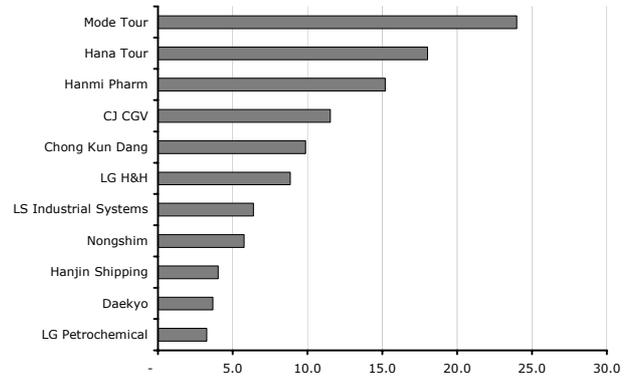


Chart 30 : Upside/downside to target price - 2005

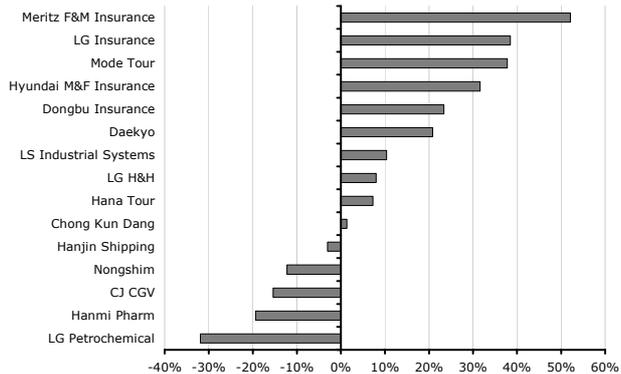
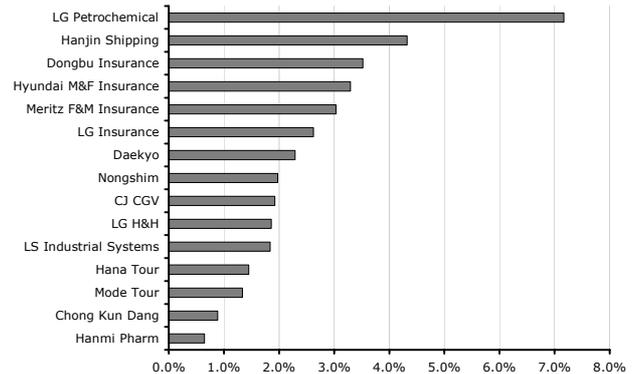


Chart 31 : Dividend yield - 2005F



Source: Company data, ABN AMRO estimates

Source: Company data, ABN AMRO estimates

Valuation comparisons

Seoul Search coverage universe (under US\$1.5bn)

Table 3 : ABN AMRO Korea valuation guide for small/mid caps

Price as of: 9-Nov-05
 KOSPI index 1227.59
 Mkt cap (US\$m) 552.3

	Bloomberg code	Rec	Mkt cap (US\$m)	Curr price (KW)	12M target (KW)	Up/down side (%)	Avg 3M T/O	Fully diluted PE (X)	P/B (X)	Div yield (%)	EV/EBITDA (X)	Net D/E
			(US\$m)	(KW)	(KW)	(%)	(US\$m)	FY04A FY05F FY06F	FY04A FY05F FY06F	FY04A FY05F FY06F	FY04A FY05F FY06F	BVPS (%)
Chemicals												
LG Petrochemical	012990 KS	Sell	1,208	27,900	19,000	(31.9)	5.1	6.0 6.1 9.2	1.8 1.5 1.4	6.3 7.2 7.2	3.5 3.3 4.3	18,329 Net Cash
Electronic & Electrical Equipment												
LS Industrial Systems	010120 KS	Buy	860	29,900	33,000	10.4	3.2	10.6 10.6 8.4	4.1 3.1 2.4	1.7 1.8 2.2	6.9 6.4 5.4	9,701 113
Food Producers & Processors												
Nongshim	004370 KS	Sell	1,399	253,000	222,000	(12.3)	7.4	11.2 13.1 13.0	1.9 1.7 1.6	1.6 2.0 2.4	5.9 5.8 6.1	148,177 Net Cash
Insurance												
Dongbu Insurance	005830 KS	Buy	1,045	15,400	19,000	23.4	7.4	7.2 6.3 5.5	1.2 1.1 0.9	2.6 3.2 3.9		10,303
Hyundai M&F Insurance	001450 KS	Buy	846	9,880	13,000	31.6	6.6	8.9 7.9 6.8	1.3 1.1 1.0	2.5 3.0 3.0		6,305
LG Insurance	002550 KS	Buy	747	13,000	18,000	38.5	4.7	10.4 6.9 5.9	1.1 0.9 0.8	1.9 2.7 3.5		7,764
Meritz F&M Insurance	000060 KS	Buy	292	35,500	54,000	52.1	1.1	8.4 6.7 4.2	0.8 0.7 0.6	2.8 2.8 4.2		31,945
Leisure and Hotels												
Hana Tour	039130 KS	Hold	341	34,500	37,000	7.2	1.6	32.6 22.5 19.1	12.3 8.8 6.6	1.2 1.4 1.7	27.6 18.0 14.4	3,924 Net Cash
Mode Tour	080160 KS	Buy	91	22,500	31,000	37.8	0.8	26.7 25.6 19.0	12.8 5.5 5.0	- 1.3 1.8	7.6 24.0 14.3	4,068 Net Cash
Media and Entertainment												
CJ CGV	079160 KS	Sell	514	26,000	22,000	(15.4)	7.9	13.3 20.1 15.4	2.8 3.0 2.6	3.6 1.9 1.9	8.7 11.5 9.2	8,623 22
Personal Care & Household Products												
LG H&H	051900 KS	Hold	804	53,700	58,000	8.0	3.5	24.0 16.0 13.2	2.9 2.5 2.2	1.4 1.9 2.8	11.2 8.9 6.9	21,424 10
Pharmaceuticals & Biotechnology												
Chong Kun Dang	001630 KS	Buy	434	39,450	40,000	1.4	9.4	29.0 18.5 15.1	4.0 3.4 2.8	0.8 0.9 1.0	13.4 9.9 8.5	11,589 77
Hanmi Pharm	008930 KS	Add	891	126,500	102,000	(19.4)	5.8	30.8 22.4 18.0	5.7 4.7 3.8	0.4 0.6 0.9	23.5 15.2 12.0	27,177 17
Support Services												
Daekyo	019680 KS	Buy	638	78,600	95,000	20.9	1.2	11.7 11.2 10.5	1.7 1.6 1.4	1.9 2.3 2.9	4.1 3.7 3.1	49,346 Net Cash
Transport												
Hanjin Shipping	000700 KS	Reduce	1,474	21,450	20,800	(3.0)	23.5	2.2 3.6 4.5	1.0 0.8 0.7	4.2 4.3 3.4	3.2 4.0 4.5	26,027 76

Source: Company data, ABN AMRO forecasts

ABN AMRO Korea valuation guide for small/mid caps (cont'd)

	Attributed net profit (W bn)		Fully diluted EPS* (W)*		IBES consensus		ABN vs IBES % diff.		Fully diluted EPS growth (%)*		3Yr CAGR (%)	ROAE (%)		DPS (W)		Payout ratio (%)						
	FY04A	FY05F	FY04A	FY05F	FY04A	FY05F	FY04A	FY05F	FY04A	FY05F		FY04A	FY05F	FY04A	FY05F	FY04A	FY05F	FY04A	FY05F			
Chemicals																						
LG Petrochemical	208	206	4,633	4,551	3,019	4,465	4,084	1.9	(26.1)	97.3	(1.8)	(33.6)	9	33.1	26.9	16.0	1,750	2,000	37.8	44.0	66.2	
Electronic & Electrical Equipment																						
LS Industrial Systems	84	84	2,816	2,811	3,566	2,700	3,535	4.1	0.9	turn to positive	(0.2)	26.9	N.A	48.2	33.2	31.8	500	550	650	17.8	19.6	18.2
Food Producers & Processors																						
Nongshim	131	111	22,635	19,318	19,523	20,909	23,669	(7.6)	(17.5)	39.5	(14.7)	1.1	6	18.1	13.7	12.6	4,000	5,000	6,000	17.7	25.9	30.7
Insurance																						
Dongbu Insurance	114	130	1,827	2,076	2,359	1,985	2,139	4.6	10.3	152.8	13.7	13.6	48	22.9	21.9	21.0	400	500	600	24.8	27.2	28.8
Hyundai M&F Insurance	68	66	853	831	980	990	1,126	(16.1)	(12.9)	36.1	(2.6)	18.0	16	16.3	13.9	14.7	250	300	300	29.3	36.1	30.6
LG Insurance	45	76	834	1,410	1,714	1,416	1,593	(0.4)	7.6	8.9	69.1	21.6	31	13.4	19.5	19.5	250	350	450	30.0	24.8	26.2
Meritz F&M Insurance	21	28	2,724	3,597	6,422	3,902	5,171	(7.8)	24.2	5.4	32.0	78.6	35	9.9	11.8	18.5	1,000	1,000	1,500	36.7	27.8	23.4
Leisure and Hotels																						
Hana Tour	11	15	1,059	1,534	1,805	1,455	1,819	5.4	(0.7)	50.6	44.8	17.7	37	44.0	45.6	39.5	400	500	600	38.9	33.4	34.1
Mode Tour	3	3	841	880	1,182	875	1,077	0.6	9.8	190	4.6	34.3	60	62.7	31.1	28.9	-	300	400	-	38.1	33.8
Media and Entertainment																						
CJ CGV	34	27	1,961	1,292	1,689	1,389	1,938	(6.9)	(12.9)	5.3	(34.1)	30.7	-3	30.1	15.7	18.3	946	500	500	48.3	38.7	29.6
Person, AI Care & Household Products																						
LG H&H	35	52	2,239	3,351	4,070	3,257	3,702	2.9	9.9	(23.6)	49.7	21.5	12	12.5	17.2	18.5	750	1,000	1,500	33.5	29.8	36.8
Pharmaceuticals & Biotechnology																						
Chong Kun Dang	16	25	1,361	2,137	2,609	2,078	2,728	2.8	(4.4)	62.5	57.0	22.1	46	15.1	20.0	20.5	300	350	400	22.0	16.4	15.3
Hanmi Pharm	30	41	4,103	5,640	7,038	5,497	7,058	2.6	(0.3)	87.4	37.4	24.8	48	19.3	22.8	23.4	452	821	1,128	20.0	20.0	20.0
Support Services																						
Daekyo	65	69	6,701	7,010	7,504	6,665	7,207	5.2	4.1	(10.7)	4.6	7.0	-0	18.4	15.7	14.8	1,500	1,800	2,300	19.6	22.1	26.6
Transport																						
Hanjin Shipping	728	443	9,852	6,004	4,724	6,749	6,002	(11.0)	(21.3)	146.2	(39.1)	(21.3)	6	58.5	25.6	16.9	895	928	730	8.8	15.0	15.0

* ABN AMRO EPS calculation differs from convention by excluding preference shares.
Source: Company data, ABN AMRO forecasts

Seoul Search watch list of not rated companies

Table 4 : ABN AMRO Korea valuation guide

Bloomberg Code	Rec	Mkt cap (US\$m)	Curr price (K₩)	12M target (K₩)	Up/down side (%)	Avg 3M T/O	Fully diluted PE (X)		P/B (X)		Div yield (%)		EV/EBITDA (X)		Net D/E						
							FY04A	FY05F	FY06F	FY04A	FY05F	FY06F	FY04A	FY05F	FY06F	FY04A	FY05F	FY06F	FY04A	FY05F	FY06F
Fursys*	016800 KS	Not Rated	306	23,800	N.A	N.A	0.2	12.3	10.6	10.0	1.4	1.6	1.4	1.3	1.6	1.6	N.A	N.A	N.A	14,481	Net Cash
Kyungdong Pharm	011040 KS	Not Rated	175	29,400	N.A	N.A	1.0	11.4	13.8	12.2	2.8	2.6	2.2	1.7	1.7	1.7	N.A	N.A	N.A	11,333	Net Cash
Binggrae	005180 KS	Not Rated	380	40,650	N.A	N.A	2.6	11.4	10.0	8.8	2.1	1.8	1.6	2.1	2.4	3.0	5.8	4.9	4.5	22,179	Net Cash
Pyeong Hwa Auto	043370 KS	Not Rated	94	6,960	N.A	N.A	0.6	10.8	9.4	6.9	1.3	1.2	1.0	1.5	1.6	1.7	9.6	5.8	4.6	5,532	1.6
First Fire & Marine*	000610 KS	Not Rated	107	4,320	N.A	N.A	3.3	25.1	3.8	N.A	1.5	1.2	N.A	-	-	N.A	N.A	N.A	N.A	3,567	N.A
Kiwoom.Com	039490 KS	Not Rated	264	23,900	N.A	N.A	1.6	37.8	8.7	6.6	3.5	2.7	2.0	1.1	N.A	N.A	N.A	N.A	N.A	8,806	N.A
Halla Engineering	014790 KS	Not Rated	281	30,500	N.A	N.A	2.8	3.1	5.6	4.5	0.4	1.1	0.9	1.5	1.7	2.0	4.8	5.9	4.8	24,946	N.A
Cosmax	044820 KS	Not Rated	57	6,400	N.A	N.A	1.2	34.5	10.6	N.A	3.5	2.9	N.A	1.0	3.3	N.A	N.A	N.A	N.A	1,948	Net Cash

* Calculated with company guidance.

Source: Company data, IBES estimates

ABN AMRO Korea valuation guide (cont'd)

Attributed net profit (W bn)	Fully diluted EPS (W)*			IBES consensus	ABN vs IBES % diff.	Fully diluted EPS growth (%)*	3Yr CAGR (%)	ROAE (%)		DPS (W)		Payout ratio (%)				
	FY04A	FY05F	FY06F					FY04A	FY05F	FY06F	FY04A	FY05F	FY06F	FY04A	FY05F	FY06F
Fursys*	23.6	27.3	29.0	1,885	2,186	2,322	2,186	2,322	2,186	2,322	300	367	367	15.9	16.8	15.8
Kyungdong Pharm	15.2	18.9	21.3	2,540	2,100	2,370	2,100	2,370	-	-	500	500	500	19.7	23.8	21.1
Binggrae	35.0	40.1	45.6	3,517	4,017	4,597	4,017	4,597	-	-	850	980	1,208	24.2	24.4	26.3
Pyeong Hwa Auto	8.9	10.5	13.6	611	706	956	706	956	-	-	100	107	114	16.3	15.1	11.9
First Fire & Marine*	10.3	30.0	N.A	383	1,120	N.A	N.A	N.A	-	-	-	-	N.A	-	-	N.A
Kiwoom.Com	7.1	32.5	43.9	625	2,712	3,584	33	44	-	-	250	N.A	N.A	40.3	N.A	N.A
Halla Engineering	24.9	48.9	61.3	2,582	5,070	6,365	5,070	6,365	-	-	450	525	625	5.7	N.A	N.A
Cosmax	1.2	5.0	N.A	157	548	N.A	N.A	N.A	-	-	60	200	N.A	36.3	36.5	N.A

* Calculated with company guidance.

Source: Company data, IBES estimates

Company profiles

The following are the latest reports published on these companies:

COMPANY PROFILES

Modetour Network

25

Hana Tour Service

30

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

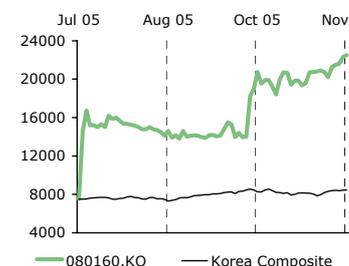
Equities Underweight

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

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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

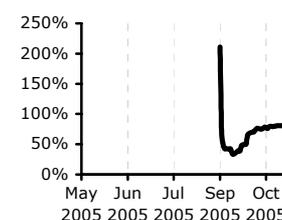
Forced ranking*

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

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

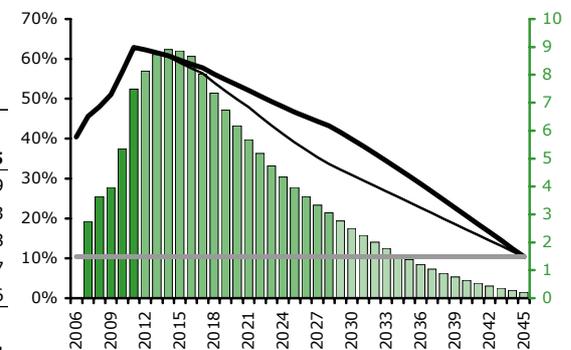
MODETOUR NETWORK: VALUATION METHODOLOGY

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				

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	2006	2007	2008	Phase 2 Avg (2012 - 2028)
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

Returns, WACC and NPV of Free Cash Flow



Source: ABN AMRO estimates

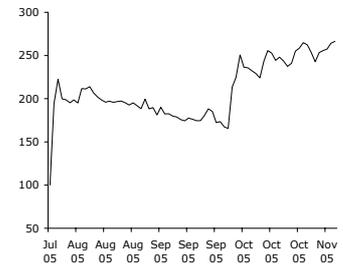
- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

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-**

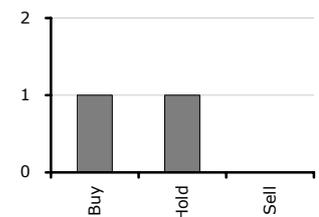
Substitute products

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

Hana Tour Service

Good stock, fully priced

Hana Tour's exceptionally high returns and structural growth prospects appear to be fully reflected in its current valuations. We initiate with a Hold recommendation and a target price of W37,000, implying 7% upside potential.

Key forecasts

	FY03A	FY04A	FY05F	FY06F	FY07F
Revenue (Wb)	58.4	79.8	107.6	130.4	156.8
EBITDA (Wb)	9.13	12.6	20.2	24.6	28.0
Reported net profit (Wb)	7.02	10.6	15.4	18.2	22.2
Normalised net profit (Wb) ¹	7.02	10.6	15.4	18.2	22.2
Normalised EPS (W)	703.3	1059.3	1534.0	1805.3	2206.3
Dividend per share (W)	350.0	400.0	500.0	600.0	800.0
Dividend yield (%)	1.01	1.16	1.45	1.74	2.32
Normalised PE (x)	49.1	32.6	22.5	19.1	15.6
EV/EBITDA (x)	31.3	27.6	18.0	14.4	12.3
Price/book value (x)	14.2	12.6	9.01	6.78	5.19
ROIC (%)	36.1	42.1	48.5	58.6	81.3

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

year to Dec, fully diluted

Outstanding combination of high returns and growth

Hana Tour - Korea's leading tour operator - is one of Korea's most compelling growth stories, in our view. The company has one of the highest ROICs among the consumption plays, made possible by significant economies of scale, high margins and the low capital requirements of the industry. Furthermore, the company's favourable ownership structure and efficient capital management ensure that the business' high returns accrue to shareholders. In addition to exceptional profitability, the company is one of the few in the domestic consumption space with a strong long-term growth outlook, thanks to an increasing outbound tourist market.

Structural growth drives scale, which drives margins

Hana Tour benefited more than its peers in terms of scale from a growing package tour market, especially after its IPO, which increased brand equity and credibility with suppliers and customers. We expect the company's tourist numbers to continue to grow in line with the market (a three-year CAGR of 14%) and more from its increasing market share over the smaller-scale retailers. We expect competition to intensify, but believe Hana Tour's growth and margins will be relatively unaffected, because the tour market is still expanding rapidly. Bigger scale should lead to greater economies of scale (bulk discounts from suppliers) and, subsequently, better margins.

All looks priced in at W37,000 - Buy on weakness

The stock is currently trading at a 2006F PE of 18.5x and a P/B of 6.6x - not far from the PE of 20.5x and the P/B of 7.3x implied by our DCF-based target of W37,000. At our target, the stock would be trading at a 25% premium to major consumption names on a P/B basis, which we believe adequately reflects the high growth potential and expected improvement in returns. Any significant pullback in the share price would present a good buying opportunity.

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

Hold

Absolute performance

n/a

Short term

Overweight

Market relative to region

Leisure and Hotels

Korea

Price

W34500.00

Target price

W37000.00

Market capitalisation

W355.95bn (US\$340.27m)

Avg (12mth) daily turnover

W1059.08m (US\$1.03m)

Reuters

039130.KQ

Bloomberg

039130 KS

Asset allocation

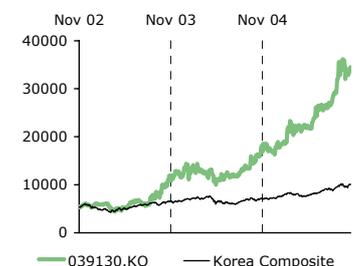
Equities Underweight

Cash Overweight

Bonds Overweight

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

	1M	3M	12M
Price (W)	34600	26050	15900
Absolute %	-0.3	32.4	117.0
Rel market %	-2.4	18.6	49.2
Rel sector %	1.5	28.1	85.6



Stock borrowing: Impossible

Volatility (30-day): 46.27%

Volatility (6-month trend): ↑

52-week range: 38950.00-15800.00

Korea Composite: 1227.59

BBG AP Leisure & Hotels: 166.07

Source: ABN AMRO & Bloomberg

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The Basics

Key assumptions

We expect the outbound tourist market to grow 24% in 2005 and 13-15% over 2006-08. Our market share assumption for Hana Tour is 9% for 2005, which we believe will gradually increase to 10% by 2008. Our net sales growth assumption for the company is 35% for 2005 and 18-21% for 2006-08. We expect the company's operating profit margin to increase from 16.2% in 2005 to 17.1% by 2008, mainly due to operating leverage.

How we differ from consensus

Our 2005-06F EPS estimates are higher than consensus mainly due to the fact that we, correctly, deduct treasury shares from our total number of shares outstanding for our calculations. Our 2007 EPS estimate is significantly higher than that of consensus, as we believe Hana Tour's market share and margins will be relatively unaffected by increased competition and will continue to improve.

Valuation and target price

Our 12-month target price of W37,000 is based on ABN AMRO's three-stage DCF model, which assumes Hana Tour's supernormal ROIC will increase to 300% by 2028 and will then gradually decline to our WACC assumption of 10.4%. We believe our DCF value represents an achievable target price, as 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 20.5x (corresponding to a P/B of 7.3x).

Catalysts for share price performance

We see two potential catalysts for the share price:

- Evidence of faster-than-expected market growth; and,
- Evidence of continued market share gains;

Risks to central scenario

Risks to our central scenario and target price include:

- A decrease in outbound tourist numbers due to outbreaks of diseases such as bird flu; and,
- Slower-than-expected growth in monthly tourists handled, due to a faster-than-expected increase in competition.
- Buyout of major competitor may be an upside risk, as this would significantly increase Hana Tour's market share, while eliminating competition.

Versus consensus

EPS (W)	ABN AMRO	Cons	% diff
2005F	1,534	1,433	7.0%
2006F	1,805	1,643	9.9%
2007F	2,206	1,802	22.4%

Source: Reuters, ABN AMRO forecasts

Key events

Date	Event
2-4 Nov 2005	KRX Conference

Source: Company

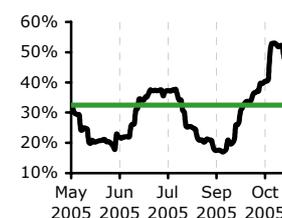
Forced ranking*

Company	Rec	Upside / Downside
Modetour	Buy	45%
Daekyo	Buy	21%
Hana Tour	Hold	7%
Shinsegae	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

HANA TOUR SERVICE: KEY FINANCIAL DATA

Income statement

Wb	FY03A	FY04A	FY05F	FY06F	FY07F
Revenue	58.4	79.8	107.6	130.4	156.8
Cost of sales	0.00	0.00	0.00	0.00	0.00
Operating costs	-49.3	-67.1	-87.4	-105.9	-128.8
EBITDA	9.13	12.6	20.2	24.6	28.0
DDA & Impairment (ex gw)	-0.75	-0.84	-2.75	-3.43	-1.99
EBITA	8.39	11.8	17.4	21.1	26.0
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	8.39	11.8	17.4	21.1	26.0
Net interest	0.78	1.03	1.11	1.05	1.74
Associates (pre-tax)	0.91	1.68	2.00	2.10	2.15
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	0.20	1.12	1.08	1.30	1.57
Reported PTP	10.3	15.6	21.6	25.6	31.4
Taxation	-3.25	-5.01	-6.19	-7.40	-9.24
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	7.02	10.6	15.4	18.2	22.2
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	7.02	10.6	15.4	18.2	22.2

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

Wb	FY03A	FY04A	FY05F	FY06F	FY07F
Cash & market secs (1)	21.5	29.9	14.6	27.3	42.3
Other current assets	11.0	14.1	19.4	23.4	28.0
Tangible fixed assets	0.78	1.44	28.7	26.1	24.9
Intang assets (incl gw)	0.03	0.03	0.01	0.00	-0.01
Oth non-curr assets	7.75	12.3	18.3	24.4	30.5
Total assets	41.1	57.8	80.9	101.1	125.7
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	12.1	16.5	19.9	23.9	28.9
Long term debt (3)	0.00	0.00	0.00	0.00	0.00
Oth non-current liab	8.94	13.1	21.5	24.7	28.3
Total liabilities	21.1	29.6	41.4	48.6	57.1
Total equity (incl min)	20.0	28.2	39.5	52.5	68.5
Total liab & sh equity	41.1	57.8	80.9	101.1	125.7
Net debt (2+3-1)	-12.6	-17.2	-0.21	-9.92	-21.4

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

Wb	FY03A	FY04A	FY05F	FY06F	FY07F
EBITDA	9.13	12.6	20.2	24.6	28.0
Change in working capital	0.60	0.69	-3.19	-0.72	-0.83
Net interest (pd) / rec	0.78	1.03	1.11	1.05	1.74
Taxes paid	-3.25	-5.01	-6.19	-7.40	-9.24
Other oper cash items	0.36	1.51	2.44	2.07	2.71
Cash flow from ops (1)	7.62	10.9	14.4	19.6	22.4
Capex (2)	-1.18	-0.34	-30.0	-0.80	-0.80
Disposals/(acquisitions)	-2.08	-3.96	-4.00	-4.00	-4.00
Other investing cash flow	-0.43	-0.50	0.01	0.01	0.01
Cash flow from invest (3)	-3.69	-4.80	-34.0	-4.79	-4.79
Incr / (decr) in equity	0.00	0.90	0.00	0.00	0.00
Incr / (decr) in debt	0.09	0.71	6.78	0.10	0.15
Ordinary dividend paid	-1.33	-3.06	-4.13	-5.16	-6.19
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	2.70	3.76	1.61	3.05	3.42
Cash flow from fin (5)	1.46	2.31	4.27	-2.00	-2.62
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	5.39	8.36	-15.4	12.8	15.0
Equity FCF (1+2+4)	6.44	10.5	-15.6	18.8	21.6

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

Source: Company data, ABN AMRO forecasts

year to Dec

HANA TOUR SERVICE: PERFORMANCE AND VALUATION

Standard ratios	Hana Tour					CJ CGV			Korea average		
Performance	FY03A	FY04A	FY05F	FY06F	FY07F	FY05F	FY06F	FY07F	2005	2006	2007
Sales growth (%)	10.7	36.5	34.9	21.2	20.2	16.7	24.1	24.0	4.08	4.87	6.23
EBITDA growth (%)	4.64	38.4	59.8	21.6	14.0	-13.6	28.9	22.8	-8.71	4.71	13.0
EBIT growth (%)	3.54	40.7	47.9	21.1	23.0	-21.1	30.4	27.0	-8.87	2.13	16.6
Normalised EPS growth (%)	2.77	50.6	44.8	17.7	22.2	-34.1	30.7	39.9	n/a	n/a	n/a
EBITDA margin (%)	15.6	15.8	18.8	18.8	17.8	19.7	20.5	20.3	20.9	20.9	23.8
EBIT margin (%)	14.4	14.8	16.2	16.2	16.6	15.1	15.9	16.2	12.9	12.6	14.8
Net profit margin (%)	12.0	13.3	14.4	13.9	14.2	10.5	11.1	12.5	11.1	10.7	12.2
Return on avg assets (%)	17.8	18.5	20.1	18.2	17.6	10.5	11.9	14.3	4.42	4.20	4.71
Return on avg equity (%)	40.5	44.0	45.6	39.5	36.7	15.7	18.3	22.2	19.1	16.7	17.1
ROIC (%)	36.1	42.1	48.5	58.6	81.3	26.2	26.9	26.2	15.7	13.8	15.4
ROIC - WACC (%)	25.7	31.8	38.2	48.2	70.9	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)	4.90	4.38	3.39	2.72	2.19	2.27	1.89	1.50	0.96	0.89	0.79
EV/EBITDA (x)	31.3	27.6	18.0	14.4	12.3	11.5	9.21	7.39	4.97	4.62	3.79
EV/EBITDA @ tgt price (x)	34.2	29.7	19.3	15.5	13.2	9.87	7.93	6.35	0.43	0.27	n/m
EV/EBIT (x)	34.1	29.6	20.9	16.8	13.2	15.0	11.9	9.22	8.19	7.99	6.28
EV/invested capital (x)	15.0	14.2	14.7	16.2	17.0	4.28	3.39	3.00	1.49	1.35	1.21
Price/book value (x)	14.2	12.6	9.01	6.78	5.19	3.02	2.65	2.27	n/a	n/a	n/a
Equity FCF yield (%)	1.87	3.04	-4.50	5.40	6.21	3.21	3.35	7.51	3.47	6.15	9.51
Normalised PE (x)	49.1	32.6	22.5	19.1	15.6	20.1	15.4	11.0	n/a	n/a	n/a
Norm PE @tgt price (x)	52.6	34.9	24.1	20.5	16.8	17.0	13.0	9.31	n/a	n/a	n/a
Dividend yield (%)	1.01	1.16	1.45	1.74	2.32	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)	0.01	0.01	0.01	0.01	0.01	Net debt to equity (%)	-63.2	-61.0	-0.53	-18.9	-31.3
Reported EPS (KRW)	703.3	1059.3	1534.0	1805.3	2206.3	Net debt to tot ass (%)	-30.8	-29.7	-0.26	-9.81	-17.1
Normalised EPS (KRW)	703.3	1059.3	1534.0	1805.3	2206.3	Net debt to EBITDA	-1.38	-1.36	-0.01	-0.40	-0.77
Dividend per share (KRW)	350.0	400.0	500.0	600.0	800.0	Current ratio (x)	2.66	2.66	1.70	2.11	2.43
Equity FCF per share (KRW)	645.6	1050.2	-1553.5	1863.0	2141.9	Operating CF int cov (x)	-13.0	-14.4	-17.5	-24.7	-17.1
Book value per sh (KRW)	2422.6	2731.2	3828.3	5089.7	6642.0	Dividend cover (x)	2.29	2.57	2.99	2.94	2.69
				<i>year to Dec</i>						<i>year to Dec</i>	

Source: Company data, ABN AMRO forecasts

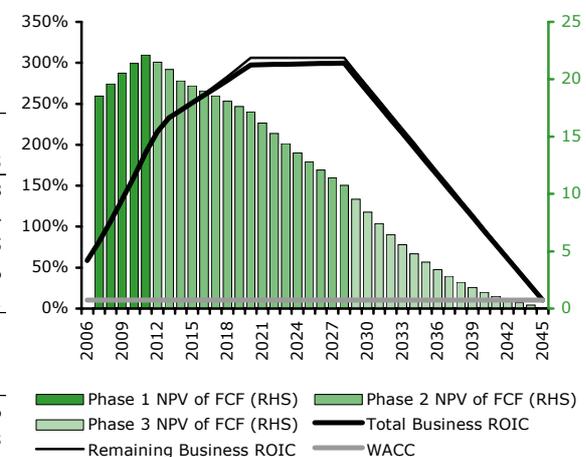
HANA TOUR SERVICE: VALUATION METHODOLOGY

Economic Profit Valuation	W bn	%	Discounted Cash Flow Valuation	W bn	%
Adjusted Opening Invested Capital	23.0	5	Value of Phase 1: Explicit (2006 to 2011)	102.2	23
NPV of Economic Profit During Explicit Period	90.2	20	Value of Phase 2: Value Driver (2012 to 2027)	278.5	63
NPV of Econ Profit of Remaining Business (1, 2)	252.4	57	Value of Phase 3: Fade (2029 to 2045)	60.7	14
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	76.9	17	Terminal Value	1.0	0
Enterprise Value	442.4	100	Enterprise Value	442.4	100
Plus: Other Assets	9.9	2	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		3.6
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	371.5	84			
No. Shares (millions)	10.1				
Per Share Equity Value	36910.57				
Current Share Price	34500.00				

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	7.0%	54052.73	55749.73	56708.45	57865.64	58497.18
	8.0%	47691.38	48951.88	49659.89	50513.86	50979.64
	9.0%	42378.10	43318.21	43843.33	44476.25	44821.25
	10.0%	37911.37	38615.35	39006.46	39477.53	39734.16
	11.0%	34132.51	34661.74	34954.26	35306.32	35498.01

Performance Summary	2006	2007	2008	Phase 2 Avg (2012 - 2028)
Invested Capital Growth (%)	-11.3	-7.6	-5.7	3.6
Operating Margin (%)	16.2	16.6	17.1	17.8
Capital Turnover (x)	5.3	7.2	9.1	23.3

Returns, WACC and NPV of Free Cash Flow



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

Hana Tour Service

Company description

The company is the leading wholesale tour operator with business alliances with 5,000 retail agencies. Revenue consists of package tours, air ticket sales and other (from shopping commission, etc.). Over 70% of revenue comes from package tours. The company was the first tour operator to go public on KOSDAQ in 2001.

Hold

Price relative to country



Strategic analysis

Average SWOT company score: **3**

Shareholders

Strengths

Hana Tour is the leading tour operator in Korea, with the biggest scale and good brand equity - factors, which are crucial in this industry. **5**

Weaknesses

The company has relatively weak brand power overseas, which we see as a weakness, as it plans to expand into the inbound tourism market. **1**

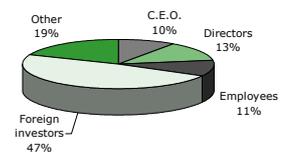
Opportunities

The market for outbound tours is increasing with increased leisure time from the five-day work/school week and a rapidly ageing 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

12F Hanmi Bldg., 1 Kongpyung-Dong, Chongro-Gu, Seoul, Korea

Website

www.hanatour.com

Shares in issue

10.3m

Freefloat

78%

Majority shareholders

Sang Hwan Park (10%), Hee Suk Kwon (7%), Hyun Suk Choi (6%)

Korea

Country view

Overweight

Country rel to Asia Pacific

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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 outbound 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 build brand equity. **2+**

Customer power

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

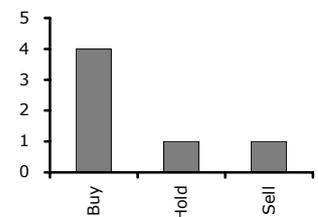
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Widely available. The range of leisure activities is broadening as Korea's population ages, and leisure time increases. **2-**

Rivalry

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

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



Source: Bloomberg

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)

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