

Modetour Network



**Korea
Travel**
19 July 2006

En Route to Solid Growth

◆ High-flying 2Q06 results

Modetour's 2Q06 results pleasantly met our expectations. Top-line in 2Q06 grew 45% yoy, piggybacking on a 44% jump in number of tour-purposed travelers via Modetour. Operating profit grew over 800% and bottom-line increased by 30% yoy, despite weak seasonality and higher-than-expected marketing costs in 2Q06.

◆ Strong growth making good time

Modetour has been enjoying its strong growth momentum for 1H06 YTD with sales, operating profit and net profit growing by 62%, 423% and 251% yoy, respectively. Despite weak demand in June due to the World Cup, 1H06's net profit accounts for 36% of our full-year forecast, while 1H05's net profit accounted for only 27% of the full-year net profit.

◆ Better sales package

The sales portion of overseas travel packages (higher margin than flight ticket sales) rose from 42% in 2Q05 to 50% in 2Q06. With this trend and economies of scale, Modetour's OP margin is expected to climb to 13% in 2006 and 14% in 2007, up from 8% in 2005. (1H06's OP margin stood at 12%).

◆ Market share riding high

Modetour has been gaining market share from smaller agencies. From January through May 2006, Modetour's market share stood at 5.9%, up from 4.7% in 2005 and 4.1% in 2004. This trend should continue as larger-scale purchasing power, greater distribution network and stronger brand power become increasingly critical in this business.

◆ W32,000 TP; maintain BUY

Recent share price weakness provides an attractive entry point. Moreover, given robust growth outlook (34% sales CAGR and 49% EPS CAGR over the next 3 years), Modetour is still undervalued. Modetour should be a key beneficiary from Korea's overseas travel market expansion, with favorable long-term structural trends which we believe should lead to a sustained re-rating of the share price. Reiterate BUY.

Year end Dec 31	2004	2005	2006E	2007E	2008E
Sales (Wbn)	31.6	38.9	58.3	74.9	94.1
Pre-tax profit (Wbn)	4.0	4.1	10.8	13.8	17.3
Net profit (Wbn)	2.9	2.9	7.8	10.0	12.5
EPS (Won)	486.7	450.8	984.7	1,187.5	1,489.3
EPS growth (%)	189.7	(7.4)	118.4	20.6	25.4
PER (x)	44.8	48.4	22.1	18.4	14.6
EV/EBITDA (x)	56.0	48.3	16.5	11.5	8.1
Dividend yield (%)	0.0	0.5	0.7	0.9	1.4

BUY

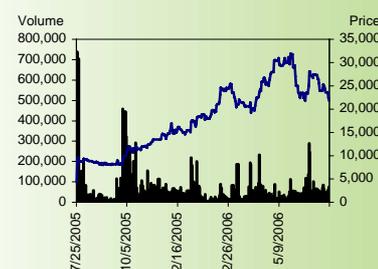
Company Update

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Price	W21,800
Target	W32,000
KOSPI	1,233.65

Historical Chart



Performance	1m	3m	6m
Absolute (%)	-6.6	-17.0	15.7
Relative (%)	-5.3	-3.2	27.6

Stock Information

Stock code	080160 KS
Market Cap. (US\$m)	191.2
52-week high	W31,950
52-week low	W7,996
Shares issued (m)	8.4
6m avg. daily vol (US\$m)	1.3
Est Free float (%)	63
Major Shareholders (%)	
CEO J.W. Woo and directors	(27.1)
ESOP	(10.3)
Korea ITMC	(5.1)

Key Indicators

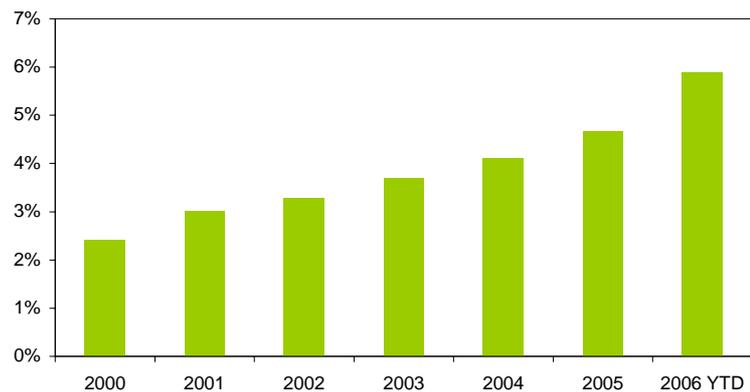
ROE (%)	24.2
ROA (%)	18.3
Net gearing (%)	-95.9
BVPS (2006, Won)	6,290

Figure 1: Quarterly results

(Unit: Wbn)	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	2006E	Run-rate
Revenue	8.1	8.5	12.8	9.4	14.67	12.4	58.3	46%
Operating profit	0.6	0.0	2.2	0.4	3.09	0.2	7.8	42%
Recurring profit	0.7	0.4	2.4	0.6	3.39	0.5	10.8	36%
Net profit	0.5	0.3	1.7	0.4	2.44	0.4	7.8	36%
Quarterly contribution								
Revenue	21%	22%	33%	24%				
Operating profit	19%	1%	67%	13%				
Recurring profit	17%	10%	58%	14%				
Net profit	18%	9%	58%	15%				
YoY growth								
Revenue	n.a.	n.a.	n.a.	n.a.	80%	45%		
Operating profit	n.a.	n.a.	n.a.	n.a.	409%	841%		
Net profit	n.a.	n.a.	n.a.	n.a.	364%	30%		
Margins								
OP margin	7.4%	0.2%	16.9%	4.4%	21.1%	1.6%		
RP margin	8.6%	4.7%	18.5%	6.2%	23.1%	3.9%		
NP margin	6.5%	3.2%	13.2%	4.8%	16.6%	2.8%		

Source: Company data, Kim Eng estimates

Figure 2: Modetour's market share on a happy ride



Source: KNTA, KATA and company data

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Figure 3: DCF summary

(Wbn)	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Free Cash Flow	2.0	8.6	11.3	13.8	16.5	19.0	21.2	23.1	24.6	25.5
PV of FCF	2.0	7.8	9.2	10.3	11.1	11.6	11.7	11.5	11.1	10.4
Sum of FCF's PV	96.6									
PV of TV	111.0									
Enterprise Value	207.7									
Other Assets	0.2									
Net (debt) or cash	48.0									
Equity Value	255.8									
No of shares ('000)	7,951									
Value per share (KRW)	32,177									
WACC	10.46%									
Cost of Equity	10.46%									
Cost of Debt	5.10%									
Beta	0.80									
Market risk premium (Rm-Rf)	6.70%									
Risk-free rate (Rf)	5.10%									
Target gearing	0.00%									
Effective tax rate	30.0%									
Debt premium	0.00%									
Terminal Value										
FCF n+1	25.7									
WACC	10.5%									
Terminal growth	1.0%									
TV	271.8									
PV of TV	111.0									

Source: Kim Eng estimates

Figure 4: DCF sensitivity

Growth		WACC				
		8.5%	9.5%	10.5%	11.5%	12.5%
0.0%		37,638	33,798	30,717	28,194	26,093
0.5%		38,880	34,715	31,410	28,729	26,513
1.0%		40,288	35,740	32,177	29,315	26,970
1.5%		41,898	36,894	33,030	29,961	27,468
2.0%		43,758	38,202	33,983	30,674	28,014

Source: Kim Eng estimates

Figure 5: Valuation comparisons

Company	Code	Rating	Target price (Won)	Upside (%)	P/E (x)		EPS growth (%)		ROE (%)		Dividend yield	
					2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
Hana Tour Service	039130 KS	Buy	90,000	29.7	27.2	20.1	56.4	35.2	52.0	48.5	1.1	1.5
Modetour Network	080160 KS	Buy	32,000	46.8	22.1	18.4	118.4	20.6	24.2	18.4	0.7	0.9
Lotte Tour Dev.	032350 KS	Sell	20,000	(17.2)	39.0	34.6	(5.2)	12.7	10.7	8.8	0.6	0.8
Average (arithmetic)					29.4	24.3	56.6	22.8	29.0	25.2	0.8	1.1

Source: Kim Eng estimates

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Income Statement

YE Dec (Wbn)	2004	2005	2006E	2007E	2008E
Revenue	31.6	38.9	58.3	74.9	94.1
Cost of sales	n.a.	n.a.	n.a.	n.a.	n.a.
Gross Profit	n.a.	n.a.	n.a.	n.a.	n.a.
SG&A	28.6	35.7	50.6	64.3	80.0
Personnel expense	10.4	12.5	16.0	20.6	25.8
General expense	17.4	21.6	30.9	39.1	48.5
Selling expense	0.8	1.6	3.7	4.6	5.7
Other expenses	0.0	0.0	0.0	0.0	0.0
Operating Profit	3.0	3.2	7.8	10.6	14.0
Net interest	0.2	0.2	2.5	2.8	3.2
Interest income	0.2	0.2	2.5	2.8	3.2
Interest expense	0.0	0.0	0.0	0.0	0.0
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	0.0	0.0	0.5	0.3	0.0
Net extraordinary	0.9	0.6	0.0	0.0	0.0
Pretax income	4.0	4.1	10.8	13.8	17.3
Income taxes	1.2	1.1	3.0	3.8	4.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net profit	2.9	2.9	7.8	10.0	12.5
Normalised net profit	2.9	2.9	7.8	10.0	12.5
EBITDA	3.2	3.5	8.2	11.1	14.6
EPS(Won)	487	451	985	1,187	1,489

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (Wbn)	2004	2005	2006E	2007E	2008E
Total assets	11.8	26.5	59.2	70.2	83.6
Current assets	4.2	16.6	52.6	61.0	71.7
Cash and ST investment	2.5	13.6	48.0	55.1	64.3
Inventories	0.0	0.0	0.0	0.0	0.0
Account Receivables	1.2	2.3	3.5	4.5	5.7
Others	0.5	0.7	1.1	1.4	1.7
Other assets	7.7	9.9	6.7	9.2	12.0
Net Fixed Asset	0.5	0.5	0.6	0.6	0.5
LT investment	7.1	9.4	6.1	8.6	11.4
Others	0.0	0.0	0.0	0.0	0.0
Total liabilities	5.9	11.9	9.2	11.9	15.4
Current liabilities	5.2	10.5	9.2	11.9	15.4
Trade and other payables	0.0	0.0	0.0	0.0	0.0
ST borrowings	0.0	0.0	0.0	0.0	0.0
Others	5.2	10.5	9.2	11.9	15.4
Long-term liabilities	0.7	1.5	0.0	0.0	0.0
Long-term debts	0.0	0.0	0.0	0.0	0.0
Others	0.7	1.5	0.0	0.0	0.0
Shareholder's equity	6.0	14.6	50.0	58.3	68.3
Capital Stock	1.7	2.1	4.2	4.2	4.2
Capital Surplus	0.0	5.3	32.0	32.0	32.0
Retained earnings	4.3	7.2	13.8	22.1	32.1
Capital Adjustment	0.0	0.0	0.0	0.0	0.0

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (Wbn)	2004	2005	2006E	2007E	2008E
Operating cash flow	4.5	7.8	3.2	11.4	14.2
Net Profit	2.9	2.9	7.8	10.0	12.5
Depreciation & amortisation	0.2	0.3	0.4	0.5	0.5
Change in working capital	0.8	3.5	-3.6	0.9	1.1
Others	0.6	1.1	-1.5	0.0	0.0
Investment cash flow	-4.0	-7.0	2.8	-3.0	-3.3
Capex	-0.1	0.0	-0.5	-0.5	-0.5
Change in other assets	-3.9	-7.0	3.3	-2.5	-2.8
Cash flow after invt.	0.5	0.8	6.0	8.4	10.8
Financing cash flow	0.0	5.7	28.4	-1.3	-1.7
Increase in share capital	0.0	5.7	28.8	0.0	0.0
Net change in debt	0.0	0.0	0.0	0.0	0.0
Change in others	0.0	0.0	-0.4	-1.3	-1.7
Net cash flow	0.5	6.5	34.4	7.1	9.2
Cash at beginning of year	4.5	7.8	3.2	11.4	14.2
Cash at end of year	2.9	2.9	7.8	10.0	12.5

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (Wbn)	2004	2005	2006E	2007E	2008E
Growth (% YoY)					
Sales	39.8	22.9	50.1	28.3	25.6
OP	534.1	6.9	142.3	37.0	32.1
EBITDA	369.2	8.7	133.8	35.6	31.1
NP	189.7	2.5	167.1	27.4	25.4
EPS	189.7	-7.4	118.4	20.6	25.4
Profitability (%)					
Gross margin	n.a.	n.a.	n.a.	n.a.	n.a.
Operating margin	9.5	8.2	13.3	14.2	14.9
EBITDA margin	10.2	9.0	14.0	14.8	15.5
Net Profit margin	9.0	7.5	13.4	13.3	13.3
ROA	29.2	15.3	18.3	15.4	16.3
ROE	62.7	28.4	24.2	18.4	19.8
Stability					
Gross debt/equity (%)	0.0	0.0	0.0	0.0	0.0
Net debt/equity (%)	-41.1	-92.9	-95.9	-94.5	-94.1
Int. coverage (X)	n.a.	n.a.	n.a.	n.a.	n.a.
Int. & ST debt coverage (X)	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow int. coverage (X)	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow int. & ST debt (X)	n.a.	n.a.	n.a.	n.a.	n.a.
Current ratio (X)	0.8	1.6	5.7	5.1	4.7
Quick ratio (X)	0.8	1.6	5.7	5.1	4.7
Net debt (Wbn)	-2.5	-13.6	-48.0	-55.1	-64.3
Per share data (Won)					
EPS	487	451	985	1,187	1,489
CFPS	765	1,198	403	1,358	1,685
BVPS	1,019	2,248	6,290	6,941	8,130
SPS	5,381	5,978	7,339	8,914	11,199
EBITDA/share	549	539	1,031	1,323	1,734
DPS	0	100	150	200	300

Source: Company data, Kim Eng estimates

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