ABN·AMRO

Produced by: ABN AMRO Asia Ltd, Seoul Branch

Monday 6 August 2007

Change of target price

Modetour Network

Travelling higher

We raise our target price for Modetour to W72,000 on the back of our earnings revisions to reflect the better-than-expected 2H07 outlook and positive effects from the potential US visa waiver. We maintain our Buy rating.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Wb)	38.9	66.4	100.6	125.8	160.8
EBITDA (Wb)	3.51	10.9	19.8▲	25.2▲	36.5▲
Reported net profit (Wb)	2.93	7.94	14.3▲	18.9▲	27.8▲
Normalised net profit (Wb)[1]	2.93	7.94	14.3	18.9	27.8
Normalised EPS (W)	450.8	998.5	1704.6▲	2253.4▲	3314.0▲
Dividend per share (W)	100.0	150.0	200.0	250.0	300.0
Dividend yield (%)	0.17	0.26	0.34	0.43	0.51
Normalised PE (x)	129.8	58.6	34.3	26.0▼	17.7▼
EV/EBITDA (x)	99.5	44.9	22.7	17.2	11.3
Price/book value (x)	16.8	9.90	7.84	6.15	4.65
ROIC (%)	40.7	102.6	66.0	85.0	122.8

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

year to Dec, fully diluted

Earnings upgraded

Modetour's share price has outperformed the Kospi by over 90% ytd, and we still see a lot more upside potential, given the better-than-expected 2H07 outlook and the positive longer-term effects from Korea's likely inclusion into the US visa waiver (starting 2009). We raise our EPS forecasts for Modetour by 7% for 2007, 14% for 2008 and 41% for 2009.

Monthly trends positive for 2H07F

The seasonally strong 3Q so far looks promising – Modetour's July tour volumes grew 57% yoy and August bookings are already up 45% yoy. September is likely to see the full impact of the long Chusuk holidays, with the majority of bookings to Europe (fewer to China), which should be positive for Modetour's profit margins. December could see some weakness due to the upcoming presidential elections, but this is more of a one-off event and just delays travel to the following quarter.

US visa waiver means upside potential to long-term earnings

Korea is likely to be included in the US visa waiver programme starting July 2008, as indicated by press reports. If the preconditions (such as e-passports) are met, Modetour's earnings may see positive impact starting 2009, from: 1) increased US package tour demand, 2) higher profit margins on US package tours from better bargaining power, and 3) increased South American tour demand using the US as a transit hub.

Target price raised to W72,000

We increase our 12-month forward DCF-based target price for Modetour to W72,000 (from W47,000) to reflect our earnings revision and the rolling forward our valuation date from 30 June 2008 to end-2008. Our target price implies 23% potential upside from current levels. The stock is trading at a 2008 PE of 25x and P/B of 6.1x for an ROE of 26% on our forecasts – a slight discount to Hana Tour's 2009F PE of 17.7x.

Important disclosures and analyst certifications regarding companies can be found in the Disclosures Appendix.

Priced at close of business 3 August 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

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

Buy

Absolute performance

n/a

Short term (0-60 days)

Overweight

Market relative to region

Consumer Services

Korea

Price

W58500.00

Target price

W72000.00 (from W47000.00)

Market capitalisation

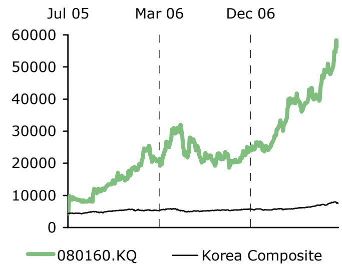
W491.40bn (US$531.25m)

Avg (12mth) daily turnover

W1816.68m (US$1.95m)

Reuters	**Bloomberg**
080160.KQ	080160 KS

Price performance	**(1M)**	**(3M)**	**(12M)**
Price (W)	49000.0	38550.0	22850.0
Absolute %	19.4	51.8	156.0
Rel market %	14.9	26.1	76.3
Rel sector %	18.5	53.5	150.2



Stock borrowing: Difficult
Volatility (30-day): 36.72%
Volatility (6-month trend): ↑
52-week range: 59000.00-18250.00
Korea Composite: 1876.80
BBG AP Leisure & Hotels: 188.17

Source: ABN AMRO, Bloomberg

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Ready for a long, long ride

We believe Modetour's share price will continue to run up on stronger-than-expected medium-term growth, which may be helped significantly by the potential US visa waiver.

Continues to surprise on the upside

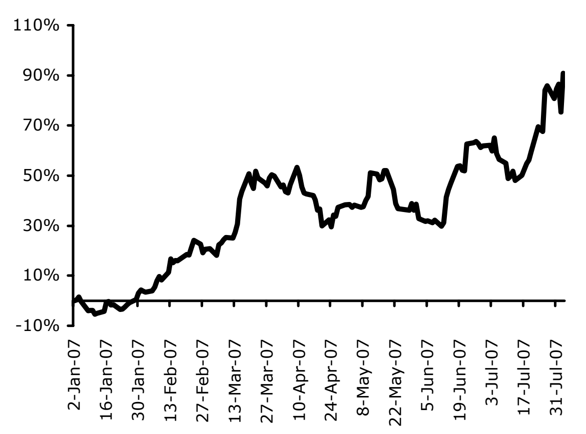
Reasons to be more positive: 2H07 outlook and potential US visa waiver

Modetour's share price has had a strong run year to date, and we believe the uptrend will continue, given the strong earnings outlook which appears better than we expected. It seems Korea is likely to be accepted for the US visa waiver programme starting July 2008, thereby bringing multiple benefits to large tour operators, including Modetour.

Stock is at all-time high; now is as good as ever to buy

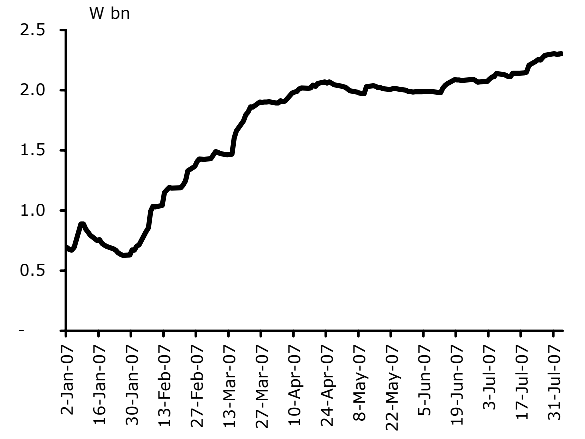
The stock is at an all-time high. Average daily turnover is at its highest at over US$2.5m. The only material risk for the stock to correct in the short term, in our view, is a correction in the Kospi – which should present a buying opportunity.

Chart 1 : Relative performance vs Kospi



Source: Quantiwise

Chart 2 : Average daily turnover



Source: Quantiwise

Earnings upgraded

Better growth prospects in 2H07, especially vs Hana Tour

After the last two quarterly results, continued strong yoy growth in monthly package tourists and subsequent outlook for 2H07, we believe it is now fair to assume Modetour's top line will grow faster than Hana Tour's in the short term, and also at a faster pace versus the sector (as Modetour takes market share from the smaller retail tour operators). Hence, we increase our top-line growth assumptions to 52% (from 32%) for 2007 and to 25% (from 21%) for 2008. Due to operating leverage, we raise our earnings forecasts for Modetour by 7% for 2007 and by 14% for 2008, implying respective EPS growth of 66% and 32%.

Longer-term growth assumptions raised to incorporate the impact of the potential US visa waiver

We increase our top-line forecasts for 2009 and beyond to reflect the overall growth in the package-tour market on the back of the potential US visa waiver (12% yoy in 2009) and Modetour's bigger market share from consolidation to a certain extent. The US currently contributes only 4-5% to Modetour's volumes – this could increase to 11-12%, the level before 9/11. This would imply about 30% top-line growth. Our bottom-line revision is based on the likely increased profitability of Modetour from the higher-margin US packages vs Asia.

Table 1 : Earnings revisions

	Previous			Revised			% Change		
	2007F	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F
Net sales (Wbn)	87.4	105.4	122.4	100.6	125.8	160.8	15%	19%	31%
Operating profit (Wbn)	17.1	21.1	24.7	18.2	24.2	35.5	7%	14%	44%
Net profit (Wbn)	13.4	16.6	19.8	14.3	18.9	27.8	7%	14%	41%
EPS (W)	1,597	1,973	2,352	1,705	2,253	3,314	7%	14%	41%
Sales growth (%)	31.6%	20.6%	16.1%	51.5%	25.1%	27.8%	19.9ppt	4.4ppt	11.7ppt
Operating margin (%)	19.6%	20.0%	20.2%	18.1%	19.2%	22.1%	-1.4ppt	-0.8ppt	1.9ppt
Net margin (%)	15.3%	15.7%	16.1%	14.2%	15.0%	17.3%	-1.1ppt	-0.7ppt	1.2ppt
EPS growth (%)	51.3%	23.6%	19.2%	65.8%	32.2%	47.1%	14.5ppt	8.6ppt	27.9ppt

Source: ABN AMRO forecasts

Monthly volume trend positive for 3Q07

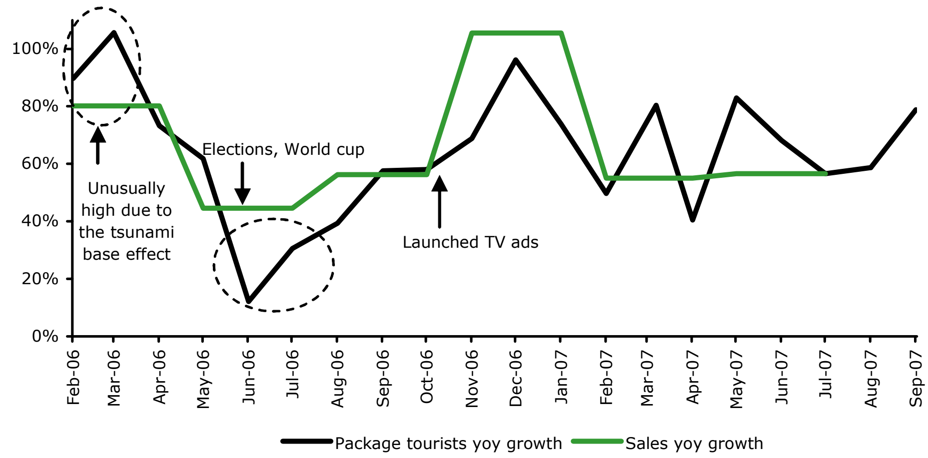
3Q07 outlook is good, thanks to long Chusuk

According to management, the seasonally strong 3Q is likely to be much stronger than we anticipated. July saw 57% yoy volume growth in package tours, translating into 35-40% yoy net sales growth. The lower sales growth vs volume growth was in part due to more tourists to China (lower ASP), but nevertheless the sales growth was strong.

Modetour's August bookings are already up 45% yoy, and the company expects to achieve 59-60% yoy volume growth by the end of the month.

The biggest anticipation is on the historically weak September – management expects 80% yoy volume growth, thanks to a long Chusuk (Korean Thanksgiving) holiday, which falls on the last two weeks of September. In 2006, Chusuk (which was equally long as this year) fell over end-September and early October. Not only does management expect high volume growth, it also anticipates revenue growth will be stronger, as most of the Chusuk bookings so far are for long-distance destinations (mainly Europe) opposed to the lower-ASP (and hence lower margin) China.

Chart 3 : Monthly package volume growth vs sales growth



Source: Company data, company guidance for August and September

4Q elections - not much of a risk in the longer term, in our view

4Q07 may present some risk to growth, given the upcoming presidential elections in December. However, the election is a one-off event (at least for the next five years), and we believe investors should buy into any stock weakness. In any case, a fall in tour demand prior to/during the election may just be offset by increased demand in the following quarter (as people delay travelling temporarily).

Likely to beat guidance

Even after taking into account the potential election risk, Modetour believes it can beat its original guidance for 2007 given at the beginning of the year, with a tentative operating profit target of W18bn (vs W17bn initially).

US visa waiver programme provides multiple benefits

Our earnings revision for 2009 and beyond reflects the impact from Korea's potential inclusion into the US visa waiver programme.

Visa waiver deal looks almost final...

Local press reports that the preliminary bill to ease the US visa waiver programme's qualification criteria – raising the rejection rate threshold to 10% from the current 3% – was issued on 26 July, and is awaiting Senate, Congress and Presidential approval. Korea seems to have a high chance of being included as its US visa rejection rate is 3.2%. But even if Korea is finally included, there are pre-conditions that must be met before Koreans can enter the US without a visa for 90 days – for one, the Korean government must change all passports to include electronic data on the traveller. The Korean government is currently working on this, and plans to have 50,000 test passports ready by December 2007. Full conversion to e-passports is expected by April 2008.

... but increasing airline routes will take time

Another precondition before tour operators feel the benefits would be increased airline routes between the US and Korea. Increased demand would be meaningless without an increased supply of airline seats.

Rather than a simple increase in flights (by Korean Air, which currently has exclusive routes to many US destinations), we believe tour operators will prefer more airlines introducing Korea-US flights. This should reduce Korean Air's bargaining power over the US flights and package tours, and should make package tours to South America easier and cheaper to plan (as transit to and from the US would be easier).

These structural requirements are why Modetour's management believes any effects of a waiver would be reflected in its earnings starting 2009 at the earliest. If everything goes according to the plan, we believe the company should benefit from:

- **Increased US package tour demand**. This is the most obvious benefit, in our view, as more Koreans would be able to travel to the US after the visa waiver. US tour demand for Modetour fell to 2% of total package tours after 11 September 2001 (from 6-7%), when travel restrictions were increased by the US. Management believes US revenue contribution can increase to at least high-single-digit in the medium term post the visa waiver. The impact on profit should be greater since US package tours are long haul, where profit margins for Modetour are higher vs those for short-haul trips (for which airfare is the largest component of cost).
- **Better profit margins on US package tours**. Although it is difficult to quantify at this stage, we would expect profit margins on US package tours to increase to a certain extent as the result of lower cost (airfare and land service fees). As more airlines provide direct routes to the US, Modetour's bargaining power should increase. Also, the company should be able to select from a wider range of hotels and land service providers, which are currently picked by Korean Air.
- **Increased South American tour demand**. Modetour should be able to provide relatively cheap South American tours using the US as a transit hub.

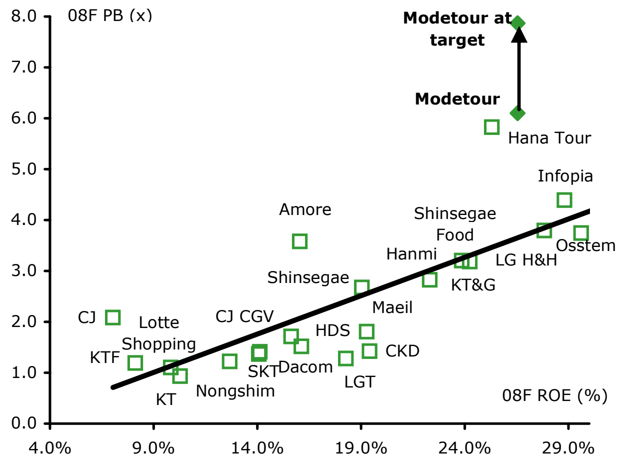
New target price of W72,000

Target price raised to W72,000

We increase our 12-month forward three-stage DCF-based target price to W72,000 (from W47,000) to reflect our earnings revisions and the rolling forward of our valuation date to 31 December 2008 (from 30 June 2008). Our target implies 23% upside from current levels, at which the 2008F PE is 25x and P/B is 6.1x for a ROE forecast of 26% (vs 24% previously). 2009F PE comes down to 17.7x.

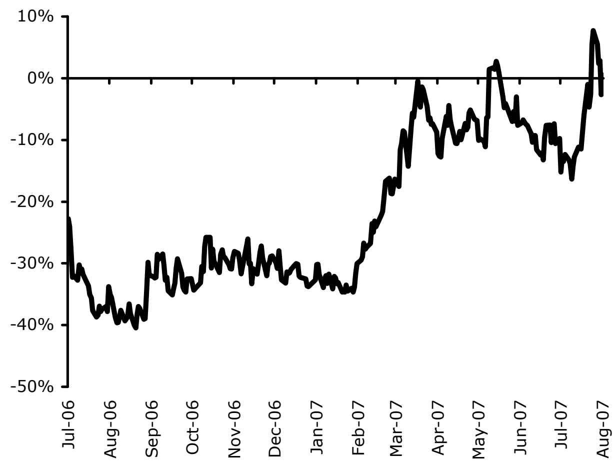
Modetour is trading at a slight discount to Hana Tour (2008F PE of 26.7x and P/B of 6.1x for an ROE of 25% on our forecasts) for 2008.

Chart 4 : ROE vs P/B for our Korean consumption universe, 2008F



Source: Price data from Quantiwise (3 August 2007), ABN AMRO forecasts

Chart 5 : One-year forward PE gap



Source: Quantiwise, ABN AMRO forecasts

Although we believe both Modetour and Hana Tour are exceptionally strong growth stories in the domestic consumption sector, we prefer Modetour for its clearer domestic growth angle, with Hana Tour aiming to be more of a global player. Modetour's management differs from Hana Tour's in that it believes capital injection into global subsidiaries will not yield substantial competitive advantages.

Risks to our investment case and target price

Downside risks to our forecasts and target prices for Modetour and Hana Tour include: 1) a decline in outbound tourist numbers due to outbreaks of diseases; and 2) faster-than-expected market maturity (intensifying competition). We would view the prospect of Hana Tour buying out a major competitor as an upside risk to the stock's target price, as this could significantly increase market share while reducing competition.

DISCLOSURES APPENDIX

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. 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 listed property trusts (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; on Australian stocks from 7 November 2006; on continental European small and mid cap stocks from 23 November 2006; and on Brazilian stocks from 18 June 2007. For UK small caps a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%.

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.

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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 06 Aug 2007)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	625 (20)	372 (2)
Add	23 (57)	1 (0)
Hold	479 (18)	282 (4)
Reduce	1 (0)	0 (0)
Sell	110 (5)	75 (0)
Total (IB%)	**1238 (19)**	**730 (3)**

Trading recommendations (as at 06 Aug 2007)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	18 (11)	14 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	**18 (11)**	**14 (0)**

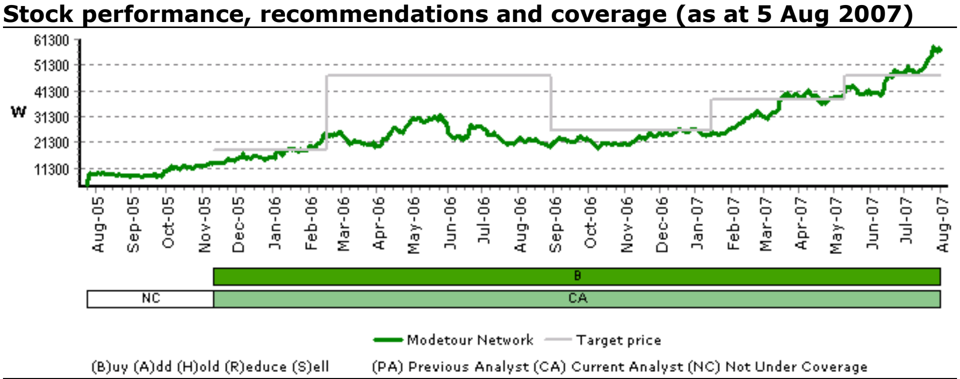
Valuation and risks to target price

Modetour Network (RIC: 080160.KQ, Rec: Buy, CP: W58500.00, TP: W72000.00): Risks to our forecasts and DCF-based target price include: 1) a decrease in outbound tourist numbers due to outbreaks of diseases; and, 2) slower-than-expected growth in the number of tourists handled each month due to a faster-than-expected increase in competition.

Hana Tour Service (RIC: 039130.KQ, Rec: Hold, CP: W91700.00, TP: W67000.00): Downside risks to our forecasts and DCF-based target price for Hana Tour include: 1) a decrease in outbound tourist numbers due to outbreaks of disease; and 2) faster-than-expected market maturity (intensifying competition). The buyout of a major competitor is an upside risk; this would significantly increase market share while reducing competition.

Modetour Network

Stock performance, recommendations and coverage (as at 5 Aug 2007)



Trading recommendation history (as at 06 Aug 2007)

Date	Rec	Analyst
	n/a	

Gina Kim, CFA started covering this stock on 10 Nov 05
Moved to new recommendation structure between 1 November 2005 and 31 January 2006

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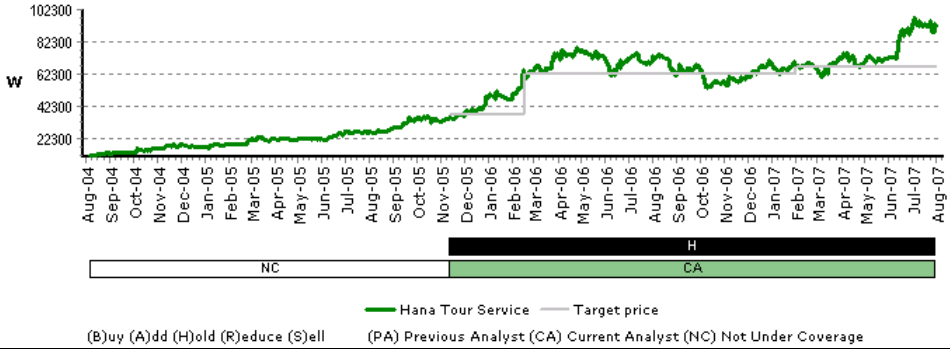
Hana Tour Service

Stock performance, recommendations and coverage (as at 5 Aug 2007)



Gina Kim, CFA started covering this stock on 10 Nov 05
Moved to new recommendation structure between 1 November 2005 and 31 January 2006

Trading recommendation history (as at 06 Aug 2007)

Date	Rec	Analyst
	n/a	

Regulatory disclosures

Subject companies: **080160.KQ, 039130.KQ**

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MODETOUR NETWORK: KEY FINANCIAL DATA

Income statement

Wb	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	38.9	66.4	100.6	125.8	160.8
Cost of sales	0.00	0.00	0.00	0.00	0.00
Operating costs	-35.4	-55.5	-80.8	-100.6	-124.2
EBITDA	**3.51**	**10.9**	**19.8**	**25.2**	**36.5**
DDA & Impairment (ex gw)	-0.31	-1.11	-1.55	-1.00	-1.08
EBITA	**3.20**	**9.75**	**18.2**	**24.2**	**35.5**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**3.20**	**9.75**	**18.2**	**24.2**	**35.5**
Net interest	0.24	0.72	1.06	1.43	2.15
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	0.62	0.66	1.01	1.26	1.61
Reported PTP	**4.05**	**11.1**	**20.3**	**26.8**	**39.2**
Taxation	-1.12	-3.20	-5.99	-7.92	-11.4
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	**2.93**	**7.94**	**14.3**	**18.9**	**27.8**
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	**2.93**	**7.94**	**14.3**	**18.9**	**27.8**

Source: Company data, ABN AMRO forecasts *year to Dec*

Balance sheet

Wb	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	13.6	36.4	51.8	70.8	100.6
Other current assets	3.07	11.5	18.6	23.7	29.2
Tangible fixed assets	0.51	3.07	1.92	1.32	0.64
Intang assets (incl gw)	0.00	0.00	0.00	0.00	0.00
Oth non-curr assets	9.39	14.4	14.4	14.4	14.4
Total assets	**26.5**	**65.5**	**86.7**	**110.2**	**144.8**
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	4.64	7.35	11.7	15.0	20.2
Long term debt (3)	0.00	0.00	0.00	0.00	0.00
Oth non-current liab	7.29	8.49	12.3	15.3	19.0
Total liabilities	**11.9**	**15.8**	**24.0**	**30.3**	**39.2**
Total equity (incl min)	14.6	49.6	62.7	79.9	105.7
Total liab & sh equity	**26.5**	**65.5**	**86.7**	**110.2**	**144.8**
Net debt (2+3-1)	-7.77	-30.1	-42.6	-59.4	-86.6

Source: Company data, ABN AMRO forecasts *year ended Dec*

Cash flow statement

Wb	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	3.51	10.9	19.8	25.2	36.5
Change in working capital	0.64	-7.35	-4.49	-3.33	-2.92
Net interest (pd) / rec	0.24	0.72	1.05	1.38	1.93
Taxes paid	-1.12	-3.20	-5.61	-6.94	-8.07
Other oper cash items	0.45	2.24	2.85	2.65	4.29
Cash flow from ops (1)	**3.72**	**3.28**	**13.6**	**18.9**	**31.8**
Capex (2)	-0.37	-3.67	-0.40	-0.40	-0.40
Disposals/(acquisitions)	-0.16	-5.00	0.00	0.00	0.00
Other investing cash flow	-2.08	0.00	0.00	0.00	0.00
Cash flow from invest (3)	**-2.62**	**-8.67**	**-0.40**	**-0.40**	**-0.40**
Incr / (decr) in equity	5.69	27.2	0.00	0.00	0.00
Incr / (decr) in debt	1.60	0.68	0.96	0.86	0.98
Ordinary dividend paid	0.00	-0.42	-1.26	-1.68	-2.10
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	2.72	0.52	2.87	2.16	2.64
Cash flow from fin (5)	**10.0**	**28.0**	**2.56**	**1.34**	**1.52**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**11.1**	**22.6**	**15.8**	**19.9**	**32.9**
Equity FCF (1+2+4)	3.34	-0.39	13.2	18.5	31.4

Lines in bold can be derived from the immediately preceding lines. *year to Dec*
Source: Company data, ABN AMRO forecasts

MODETOUR NETWORK: PERFORMANCE AND VALUATION

Standard ratios

Performance	Modetour FY05A	FY06A	FY07F	FY08F	FY09F	Hana Tour Service FY07F	FY08F	FY09F	Korea aggregate 2007	2008	2009
Sales growth (%)	22.9	70.8	51.5	25.1	27.8	38.8	24.6	18.7	4.68	4.64	5.28
EBITDA growth (%)	8.65	209.9	82.3	27.1	45.2	46.6	30.1	15.5	8.46	8.70	8.36
EBIT growth (%)	6.93	204.9	87.1	32.4	46.8	40.0	26.8	20.0	9.70	11.1	8.79
Normalised EPS growth (%)	-7.39	121.5	70.7	32.2	47.1	25.1	24.1	20.3	n/a	n/a	n/a
EBITDA margin (%)	9.02	16.4	19.7	20.0	22.7	20.6	21.5	20.9	18.1	18.8	21.1
EBIT margin (%)	8.23	14.7	18.1	19.2	22.1	18.5	18.8	19.0	11.1	11.8	13.3
Net profit margin (%)	7.54	12.0	14.2	15.0	17.3	14.8	14.8	15.0	10.3	10.8	11.5
Return on avg assets (%)	12.1	15.1	16.9	17.3	19.7	15.5	15.6	15.3	3.53	3.47	3.20
Return on avg equity (%)	28.4	24.7	25.5	26.5	30.0	24.7	25.3	25.1	15.1	14.8	14.3
ROIC (%)	40.7	102.6	66.0	85.0	122.8	79.0	50.4	64.8	13.5	13.7	15.0
ROIC - WACC (%)	30.3	92.2	55.6	74.7	112.4	68.7	40.0	54.4	n/a	n/a	n/a
					year to Dec			*year to Dec*			*year to Dec*
Valuation											
EV/sales (x)	8.98	7.34	4.46	3.43	2.57	4.43	3.46	2.93	1.01	0.94	0.84
EV/EBITDA (x)	99.5	44.9	22.7	17.2	11.3	21.5	16.1	14.0	6.12	5.46	4.77
EV/EBITDA @ tgt price (x)	131.9	55.3	28.4	21.7	14.4	15.4	11.5	9.97	n/m	n/m	n/m
EV/EBIT (x)	109.1	50.0	24.6	17.9	11.7	24.0	18.4	15.4	10.8	9.27	8.03
EV/invested capital (x)	51.0	25.0	22.4	21.1	21.7	13.7	14.3	15.2	1.67	1.52	1.47
Price/book value (x)	16.8	9.90	7.84	6.15	4.65	7.07	5.82	4.79	n/a	n/a	n/a
Equity FCF yield (%)	0.88	-0.08	2.69	3.77	6.38	-0.50	4.19	4.91	3.46	4.55	6.62
Normalised PE (x)	129.8	58.6	34.3	26.0	17.7	31.3	25.2	21.0	n/a	n/a	n/a
Norm PE @tgt price (x)	159.7	72.1	42.2	32.0	21.7	22.9	18.4	15.3	n/a	n/a	n/a
Dividend yield (%)	0.17	0.26	0.34	0.43	0.51	0.93	1.09	1.20	1.86	2.11	2.54
					year to Dec			*year to Dec*			*year to Dec*

Per share data	FY05A	FY06A	FY07F	FY08F	FY09F
Tot adj dil sh, ave (b)	0.01	0.01	0.01	0.01	0.01
Reported EPS (KRW)	450.8	998.5	1704.6	2253.4	3314.0
Normalised EPS (KRW)	450.8	998.5	1704.6	2253.4	3314.0
Dividend per share (KRW)	100.0	150.0	200.0	250.0	300.0
Equity FCF per share (KRW)	514.0	-49.5	1571.7	2205.2	3733.5
Book value per sh (KRW)	3480.2	5907.0	7461.5	9514.9	12579.0
					year to Dec

Solvency	FY05A	FY06A	FY07F	FY08F	FY09F
Net debt to equity (%)	-53.2	-60.7	-68.0	-74.4	-81.9
Net debt to tot ass (%)	-29.3	-46.0	-49.2	-53.9	-59.8
Net debt to EBITDA	-2.22	-2.77	-2.15	-2.36	-2.37
Current ratio (x)	3.59	6.53	6.01	6.32	6.42
Operating CF int cov (x)	-19.6	-7.98	-17.4	-17.7	-19.6
Dividend cover (x)	6.98	6.30	8.52	9.01	11.0
					year to Dec

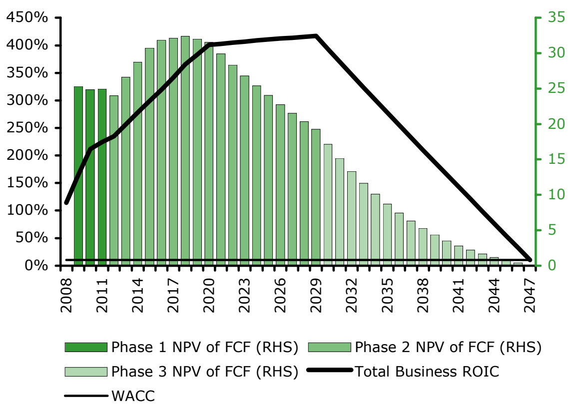
Priced as follows: 080160.KQ - W58500.00; 039130.KQ - W91700.00
Source: Company data, ABN AMRO forecasts

MODETOUR NETWORK: VALUATION METHODOLOGY

Economic Profit Valuation	W bn	%
Adjusted Opening Invested Capital	16.1	2
NPV of Economic Profit During Explicit Period	70.9	10
NPV of Econ Profit of Remaining Business (1, 2)	378.0	56
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	211.6	31
Enterprise Value	676.6	100
Plus: Other Assets	59.4	9
Less: Minorities	0.0	0
Less: Net Debt (as at 31 Dec 2008)	0.0	0
Equity Value	604.6	89
No. Shares (millions)	8.4	
Per Share Equity Value	**71978.67**	
Current Share Price	58500.00	

Discounted Cash Flow Valuation	W bn	%
Value of Phase 1: Explicit (2008 to 2011)	75.2	11
Value of Phase 2: Value Driver (2012 to 2029)	488.3	72
Value of Phase 3: Fade (2030 to 2047)	112.0	17
Terminal Value	1.2	0
Enterprise Value	676.6	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		6.0
FCF Grth Rate at end of Phs 1 implied by Current Price		10.4

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table

		No of Years in Fade Period				
		15	18	20	23	25
WACC	7.0%	103555.62	107058.36	109187.94	111763.94	113172.33
	8.0%	91667.71	94296.56	95878.17	97789.72	98834.11
	9.0%	81709.07	83689.99	84869.87	86294.69	87072.62
	10.0%	73317.00	74815.56	75699.60	76766.28	77348.28
	11.0%	66204.07	67342.12	68007.35	68809.36	69246.65

Performance Summary	2008	2009	2010	Phase 2 Avg (2012 - 2029)
Invested Capital Growth (%)	3.2	-9.3	4.3	5.1
Operating Margin (%)	19.2	22.1	22.0	27.3
Capital Turnover (x)	8.5	10.5	13.5	20.5

Source: ABN AMRO forecasts

1. In periods following the Explicit Period i.e. Phase 2 and Phase 3

2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter

3. Net Investment is defined as capex over and above depreciation after Phase 1

Modetour Network

Company description — Buy

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 July 2005. Modetour is second in terms of market share, handling 4% of Korea's outbound tourists per annum, following the market leader, Hana Tour.

Price relative to country

Strategic analysis — Average SWOT company score: 3

Strengths — 4
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.

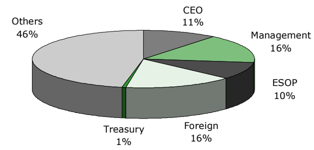
Weaknesses — 2
The company falls behind the market leader, Hana Tour, on brand equity, which is an important determinant of scale.

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

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

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

Shareholder breakdown



Source: Company

Market data

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

Website
www.modetour.co.kr

Shares in issue
8.4m

Freefloat
54%

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

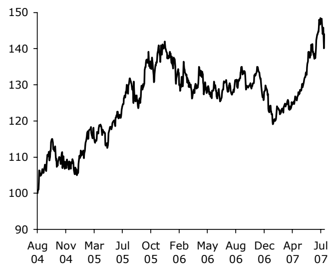
Korea

Country view — Overweight

We move Korea back to Overweight given the strong signs of an improving domestic economy. Retail sales have rebounded and consumer sentiment indices seem to have bottomed following greater clarity on the mortgage regulation changes. Moreover, inflationary pressure and house price increases have eased, reinforcing our view that Bank of Korea should sit pat on rates in the coming months. We encourage investors to relook at the consumer and banking sectors.

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

Country rel to Asia Pacific



Competitive position — Average competitive score: 3-

Supplier power — 3-
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.

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

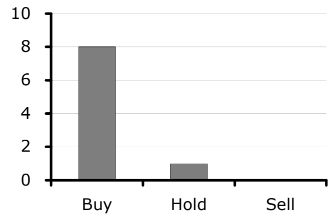
Customer power — 3-
High. The tour-operator market is highly fragmented. Customers have a wide choice, which is normally determined by the price, services and credibility of the tour operator.

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

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

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

Broker recommendations



Source: Bloomberg