

COMPANY UPDATE

Modetour Network (080160.KQ)

Neutral

Lowering target and earnings, but still prefer over Hana Tour

What's changed

We re-visit our earnings estimates and target price for Modetour.

Implications

4-10% downward revision to FY2008E-2009E earnings. Reflecting YTD outbound traffic data and Modetour's weaker-than-expected 3Q2007 results, we lower our FY2008E-2009E NP estimates by 4% and 10%, respectively.

Modetour not insulated from intensifying competition. Though we forecast Modetour to suffer less (compared to Hana Tour) from downward pressure on mark-up (on both package tour products and airline ticket sales), however, we still forecast Modetour's mark-up (package tour net sales as a percentage of gross sales) to decline from 15.7% in FY2006 to 15.0% in FY2009E, along with the downward trend of mark-up of Hana Tour (from 18.3% in FY2006 to 17.2% in FY2009E).

Still prefer Modetour over Hana Tour. Though we now have Neutral ratings on both Hana Tour and Modetour, we continue to prefer Modetour over Hana Tour given: 1) Modetour's stronger earnings growth outlook; 2) potential dilution in Hana Tour's EPS; and 3) less potential downside risk in Modetour's consensus earnings.

Valuation

We lower our 12-mth target price to W50,500 (from W62,500) to reflect our sharper downward earnings revision from FY2009E and beyond. Our target price is derived from a DCF model, applying a terminal growth rate of 1% and a WACC of 9.0%. Our TP implies a FY2008E P/E of 24.5x and P/B of 5.7x – both close to the middle of its historical trading range.

Key risks

Intensifying competition, geopolitical risk and/or an outbreak of infectious diseases (such as SARS and bird flu), sluggish domestic consumption and weakening Won.

INVESTMENT LIST MEMBERSHIP

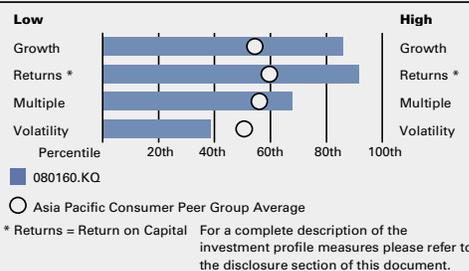
Neutral

Coverage View: Neutral

South Korea:
Entertainment & Leisure

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Investment Profile: Modetour Network

Key data	Current
Price (W)	46,100
12 month price target (W)	50,500
Market cap (W bn / US\$ mn)	387.2 / 423.0
Foreign ownership (%)	19.6

	12/06	12/07E	12/08E	12/09E
EPS (W) New	1,028	1,561	2,062	2,650
EPS revision (%)	0.0	(3.1)	(3.7)	(9.9)
EPS growth (%)	128.1	51.8	32.1	28.5
EPS (dil) (W) New	1,028	1,561	2,062	2,650
P/E (X)	44.8	29.5	22.4	17.4
P/B (X)	8.1	6.5	5.2	4.0
EV/EBITDA (X)	14.6	20.5	14.8	11.3
Dividend yield (%)	0.4	0.9	1.4	1.7
ROE (%)	26.1	24.3	25.9	26.2

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	(12.2)	9.0	104.9
Rel. to Korea SE Composite	(22.9)	(9.4)	50.1

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/18/2007 close.

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Modetour Network: Summary financials

Profit model (W bn)	12/06	12/07E	12/08E	12/09E	Balance sheet (W bn)	12/06	12/07E	12/08E	12/09E
Total revenue	66.4	98.9	133.5	175.1	Cash & equivalents	14.0	20.9	28.1	35.0
Cost of goods sold	0.0	0.0	0.0	0.0	Accounts receivable	5.3	7.8	10.6	13.9
SG&A	(56.6)	(82.3)	(110.7)	(146.3)	Inventory	0.0	0.0	0.0	0.0
R&D	--	--	--	--	Other current assets	31.2	30.3	33.8	46.1
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	50.5	59.0	72.5	95.0
EBITDA	10.2	17.2	23.5	29.8	Net PP&E	0.8	1.3	2.0	2.5
Depreciation & amortization	(0.4)	(0.6)	(0.7)	(1.0)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	9.8	16.7	22.8	28.8	Total investments	19.5	33.4	46.4	61.3
Interest income	1.3	2.2	2.0	3.0	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	0.0	Total assets	70.8	93.8	121.0	158.8
Income/(loss) from uncons. subs.	0.0	(0.7)	(0.7)	(0.8)	Accounts payable	8.3	12.3	17.9	24.4
Others	(7.4)	0.4	0.4	0.4	Short-term debt	0.0	0.0	0.0	0.0
Pretax profits	11.4	18.5	24.5	31.5	Other current liabilities	12.3	18.3	24.6	32.3
Income tax	(3.3)	(5.4)	(7.2)	(9.2)	Total current liabilities	20.5	30.6	42.6	56.7
Minorities	0.0	0.0	0.0	0.0	Long-term debt	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	8.2	13.1	17.3	22.3	Other long-term liabilities	2.3	3.4	4.6	6.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	2.3	3.4	4.6	6.0
Net income (pre-exceptionals)	8.2	13.1	17.3	22.3	Total liabilities	22.8	33.9	47.1	62.7
Post-tax exceptionals	0.0	0.0	0.0	0.0	Common stock & premium	34.1	34.1	34.1	34.1
Net income	8.2	13.1	17.3	22.3	Other common equity	13.9	25.7	39.7	62.0
EPS (basic, pre-except) (W)	1,028	1,561	2,062	2,650	Total common equity	48.0	59.8	73.8	96.1
EPS (basic, post-except) (W)	1,028	1,561	2,062	2,650	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, post-except) (W)	1,028	1,561	2,062	2,650	Total liabilities & equity	70.8	93.8	121.0	158.8
DPS (W)	180	400	650	800	BVPS (W)	5,713	7,122	8,787	11,436
Dividend payout ratio (%)	17.5	25.6	31.5	30.2					
Free cash flow yield (%)	(3.4)	0.7	2.7	3.5					
Growth & margins (%)	12/06	12/07E	12/08E	12/09E	Ratios	12/06	12/07E	12/08E	12/09E
Sales growth	70.8	49.0	35.0	31.1	ROE (%)	26.1	24.3	25.9	26.2
EBITDA growth	190.1	69.3	36.6	26.6	ROA (%)	16.8	15.9	16.1	15.9
EBIT growth	204.9	70.9	36.6	26.5	ROACE (%)	36.3	31.7	37.5	37.7
Net income growth	178.9	60.4	32.1	28.5	Inventory days	NM	NM	NM	NM
EPS growth	128.1	51.8	32.1	28.5	Receivables days	20.9	24.1	25.2	25.5
Gross margin	100.0	100.0	100.0	100.0	Payable days	NM	NM	NM	NM
EBITDA margin	15.3	17.4	17.6	17.0	Net debt/equity (%)	(71.3)	(58.1)	(54.0)	(54.3)
EBIT margin	14.7	16.8	17.1	16.5	Interest cover - EBIT (X)	NM	NM	NM	NM
Cash flow statement (W bn)	12/06	12/07E	12/08E	12/09E	Valuation	12/06	12/07E	12/08E	12/09E
Net income pre-preferred dividends	8.2	13.1	17.3	22.3	P/E (analyst) (X)	44.8	29.5	22.4	17.4
D&A add-back	0.4	0.6	0.7	1.0	P/B (X)	8.1	6.5	5.2	4.0
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	14.6	20.5	14.8	11.3
Net inc/(dec) working capital	0.5	1.3	3.5	4.0	Dividend yield (%)	0.4	0.9	1.4	1.7
Other operating cash flow	(0.0)	0.0	0.0	0.0					
Cash flow from operations	10.6	16.9	30.6	29.7					
Capital expenditures	(0.7)	(1.1)	(1.4)	(1.4)					
Acquisitions	(14.3)	(14.0)	(13.0)	(14.9)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(15.5)	6.6	(5.6)	(1.1)					
Cash flow from investments	(30.5)	(8.5)	(19.9)	(17.4)					
Dividends paid (common & pref)	(0.4)	(1.5)	(3.3)	(5.4)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	26.7	0.0	0.0	0.0					
Other financing cash flows	(1.2)	0.0	0.0	0.0					
Cash flow from financing	25.0	(1.5)	(3.3)	(5.4)					
Total cash flow	5.2	6.9	7.3	6.9					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Earnings revisions

(W bn)	----- Previous -----			----- New -----			----- % change -----		
	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E
Sales	101.2	135.6	178.4	98.9	133.5	175.1	(2.3)	(1.5)	(1.9)
Airline ticket sales	32.1	40.2	48.8	30.4	40.4	49.7	(5.3)	0.5	1.9
No. of travellers	924,764	1,247,330	1,661,929	949,315	1,328,488	1,802,141	2.7	6.5	8.4
ASP (Won1,000)	34,749	32,214	29,336	32,068	30,406	27,559	(7.7)	(5.6)	(6.1)
Package tour sales	65.8	91.3	124.6	65.2	89.3	121.1	(0.9)	(2.2)	(2.8)
No. of travellers	656,340	964,335	1,363,293	669,026	1,009,262	1,453,920	1.9	4.7	6.6
ASP (Won1,000)	100,252	94,641	91,409	97,492	88,474	83,320	(2.8)	(6.5)	(8.8)
Others	3.3	4.1	5.0	3.3	3.8	4.3	(0.7)	(7.5)	(15.0)
Operating expense	83.9	111.9	146.3	82.3	110.7	146.3	(1.9)	(1.0)	(0.0)
Operating profit	17.4	23.7	32.1	16.7	22.8	28.8	(3.9)	(4.0)	(10.3)
Recurring profit	19.0	25.3	34.7	18.5	24.5	31.5	(2.6)	(3.2)	(9.4)
Net profit	13.5	18.0	24.7	13.1	17.3	22.3	(3.1)	(3.7)	(9.9)
Margin									
OP margin (%)	17.1	17.5	18.0	16.8	17.1	16.5			
RP margin (%)	18.8	18.7	19.5	18.7	18.3	18.0			
NP margin (%)	13.4	13.3	13.8	13.3	13.0	12.7			

Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: 4Q2007E results preview

(W bn)	4Q2006	1Q2007	2Q2007	3Q2007	4Q2007E	YoY chg (%)	QoQ chg (%)	Consensus	Var (%)
Sales	19.4	22.7	19.4	29.7	27.2	40.4	(8.4)	24.4	11.6
OP	2.1	5.0	1.7	5.5	4.4	112.4	(20.2)	3.7	18.9
RP	2.6	5.8	1.5	6.3	4.9	89.0	(21.9)	4.4	12.6
NP	1.8	4.1	1.1	4.5	3.4	89.0	(23.0)	3.3	3.2
Margin									
Operating margin (%)	10.7	22.2	8.9	18.6	16.2			15.2	
Recurring margin (%)	13.4	25.6	8.0	21.2	18.0			17.9	
Net margin (%)	9.4	18.2	5.6	15.0	12.6			13.6	

Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: GSE vs. market consensus – FY2008E

(W bn)	GSE	Consensus	Diff (%)
Sales	133.5	132.2	1.0
OP	22.8	25.0	(9.0)
RP	24.5	27.6	(11.3)
NP	17.3	20.4	(15.1)
Margin (%)			
Operating margin	17.1	18.9	
Recurring margin	24.8	28.1	
Net margin	13.0	15.4	

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

Exhibit 4: DCF valuation of Modetour

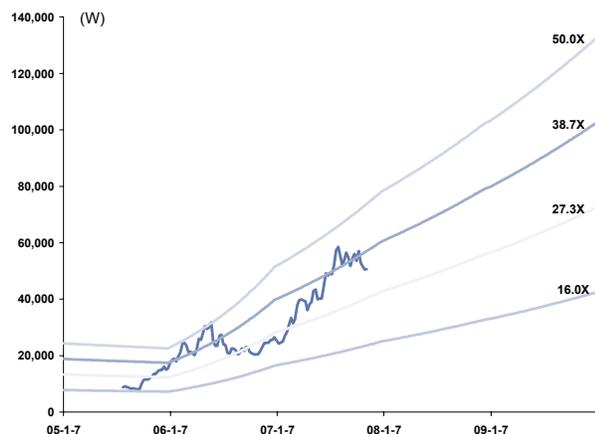
(W bn)	FY2008E	FY2009E	FY2010E	FY2011E	FY2012E
Discounted FCF	14.4	18.0	20.0	22.0	22.8
Terminal Value					405.8
Sum of discounted FCF		97.1			
PV of Terminal Value		287.5			
FCF		384.6			
Cash, financial goods, and marketable securities		39.8			
Value of Debt		0.0			
Value of Equity		424.5			
Value Per Common Share (W)		50,532			
Risk Free Rate of Interest (Rf)		5.0%			
Beta		0.62			
Market Risk Premium		6.5%			
Cost of Equity		9.0%			
WACC		9.0%			

Sensitivity Analysis

WACC/g	0%	1%	2%	3%	4%
7.0%	58,482	65,917	76,324	91,936	117,956
8.0%	51,690	57,113	64,342	74,464	89,646
9.0%	46,427	50,532	55,810	62,849	72,704
10.0%	42,202	45,395	49,387	54,518	61,361
11.0%	38,760	41,303	44,411	48,295	53,289

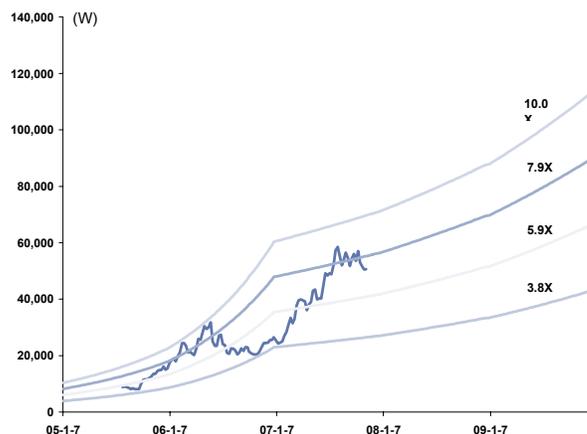
Source: Company data, Goldman Sachs Research estimates.

Exhibit 5: P/E band



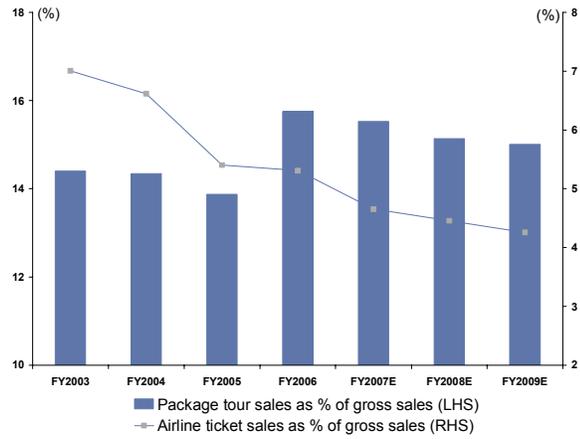
Source: Company data, Goldman Sachs Research estimates.

Exhibit 6: P/B band



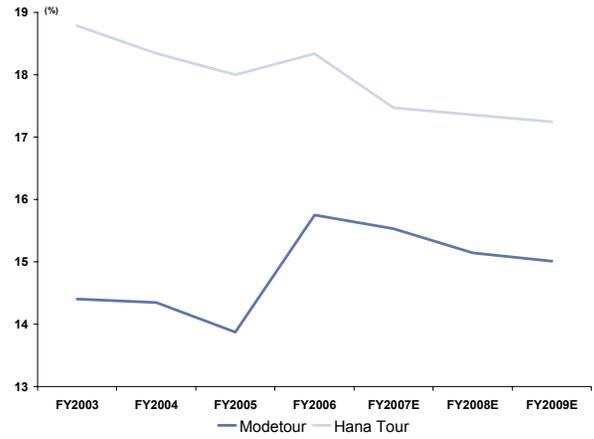
Source: Company data, Goldman Sachs Research estimates.

Exhibit 7: Modetour's declining mark-up – a sign of intensifying competition



Source: Company data, Goldman Sachs Research estimates.

Exhibit 8: Package tour mark-up comparison between Hana Tour and Modetour



Source: Company data, Goldman Sachs Research estimates.

Reg AC

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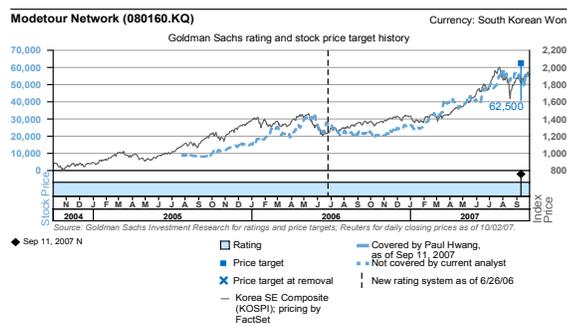
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