KOREA

Korea tourism

9 May 2008

Inside

Korea tourism initiations (prices as of 7 May 08)

	Ticker	Rec	Mkt cap (Won bn)	Price (Won)	TP (Won)	Up-side (%)
Hana Tour	039130 KQ	OP	633	54,500	83,000	52
Modetour	080160 KQ	OP	280	33,350	50,000	50

Source: Macquarie Research, May 2008

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Ready for take-off

Initiate on tourism sector; Outperforms on Hana and Mode

We are upbeat on the Korean tourism sector because structural growth momentum continues; we expect market consolidation to benefit the better-known names such as Hana Tour Service (Hana Tour) and Modetour Network (Modetour). Following an extended fall in both Hana Tour and Modetour's share prices since August 2007, both stocks (down 43–45% during this period) appear to have bottomed in March.

We prefer Hana Tour to Modetour given its stronger market position (brand) and the stock's liquidity. Our target price for Hana Tour is Won83,000 (+52%); for Modetour, it is Won50,000 (+50%).

Valuations and Alpha scores can't get any worse

Hana Tour and Modetour's shares are trading below their average historical trading ranges. However, we expect both companies to post stronger EPS growth momentum in 2008 (30–45% YoY) in view of ongoing structural growth, market share gains and margin improvement.

The two stocks rank very poorly in Macquarie's quant model, with Hana Tour at 185th and Modetour at 212th out of 222 stocks. Both stocks exhibit downward recommendation or earnings revision and poor 12-month share-price momentum. However, we believe the worst is over for Hana Tour and Modetour and that their valuations and Alpha scores cannot get any worse. If the shares rebound, 12-month share-price momentum will improve; if 2Q/3Q earnings surprise on the upside, we should see these companies' Alpha scores improve.

Demand picks up despite weak Won and raised prices

This year, the shares have declined sharply on worries about the weaker Won and reduced airline ticket sales commissions. We are not overly concerned, however, as the larger travel agencies have already raised their package tour prices. More recently, travel agency shares have bounced with good trading volume. We expect pent-up travel from the past few months to resume in May, benefiting from many three-day weekends. We expect an earnings pickup from May onwards.

Structural growth story intact; new kicker for US travel

We think it is worth highlighting again the following factors that we believe would underpin the sector's structural growth: shorter work and school weeks, industry consolidation and, more importantly, favourable changes in lifestyle (more time and money). All these should ensure stable outbound travel growth at 10% CAGR in 2007–10E, following 15% in 2004–07.

Since 2001, travel to the US has fallen steadily on more stringent visa requirements. However, the Korean government has recently hammered out an agreement with the US that would extend the US VWP (visa waiver programme) to Koreans. This should lead to a rebound in travel to the US, in our view.

Ready for take-off

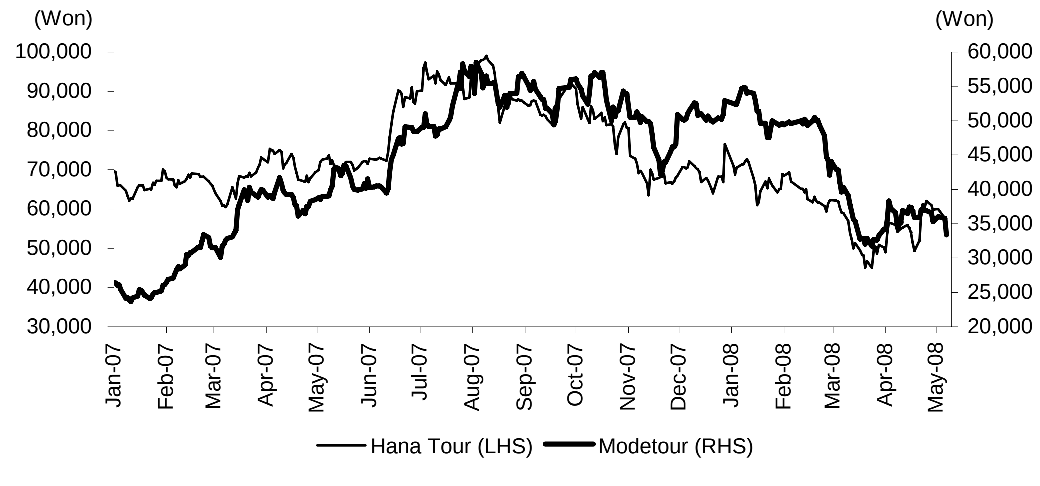
Initiate Korea Tourism with Outperforms on Hana and Mode

We are upbeat on the Korean tourism sector because structural growth momentum continues; we expect market consolidation to benefit the better-known names such as Hana Tour Service (Hana Tour) and Modetour Network (Modetour). Following an extended fall in both Hana Tour and Modetour's share prices since August 2007, both stocks (down 43–45% during this period) appear to have bottomed in March.

We have a more positive outlook for Hana Tour's share price, given the company's stronger market position (brand) and the stock's liquidity. However, we expect Modetour, the next largest player and beneficiary of current market conditions, to also do well.

We have set a target price of Won83,000 (52% potential upside) for Hana Tour, based on a DCF methodology, applying a 10.5% WACC and a 3% terminal growth. Our target price translates into a 2009E target PER of 20x, which is lower than the stock's average 12-month forward PER of 23x and peak PER of 36x since 2005. For Modetour, we derive a target price of Won50,000 (50% potential upside) based on a DCF model with a WACC assumption of 10.5% and a terminal growth assumption of 3%. Our target price is equivalent to a 2009E PER of 19x, which is lower than the average 12-month forward PER of 21x and the peak PER of 34x since its listing on July 2005. We think our target valuations fully incorporate the slowdown in the growth prospects of the outbound tourism industry as well as the companies, relative to the past.

Fig 1 Share price trend



Source: QuantWise, Macquarie Research, May 2008

Demand picks up despite weaker Won and raised package tour prices

This year, Hana Tour and Modetour shares have fallen more sharply on worries over the weaker Won, reduced airline ticket sales commissions and increased fuel surcharges on airline ticket prices. However, we believe the drop in the share prices has been excessive. Hana Tour and Modetour have already raised their package tour prices by 5–8% from April to cover the impact from the factors cited above.

More recently, travel agency shares have bounced with good trading volumes. We expect pent-up travel from the past few months to resume in May, benefiting from many three-day weekends. Strong May-June booking was made despite the weaker Won and raised package tour prices. We expect an earnings pickup from May onwards.

Structural growth story intact…

We think it is worth highlighting again the following factors that we believe would underpin the sector's structural growth: shorter work and school weeks, gradually-rising personal incomes, industry consolidation and, more importantly, favourable changes in lifestyle (more time and money). This should ensure stable outbound travel growth at 10% CAGR in 2007–10E, following 15% in 2004–07.

Investors may argue that a 10% three-year CAGR (in 2007–10E) is not that strong. Although the projected 10% implies a slowdown from the 15% CAGR in 2004–07, this growth would be among the highest in the Korean consumer and consumer service space. Macquarie analyst HongSuk Na expects the Korean cosmetics industry to grow at 5% pa during this period – and this is considered 'high growth' compared to other countries. He estimated apparels and household goods to grow at 4% and 3% pa, respectively.

…with a new kicker for US travel

Since 2001, travel to the US has fallen steadily due to more stringent visa requirements. As a percentage of total outbound travel traffic, US-destination travellers have fallen from 16% in 2000 to 5% in 2007. However, the Korean government has hammered out an agreement with the US in April 2008 that would extend the US VWP (visa waiver programme) to Koreans. This should lead to a rebound in travel to the US, in our view.

Valuations and Alpha scores can't get any worse

Following an extended fall in their share prices, Hana Tour and Modetour' shares are trading below their average historical trading ranges. However, we expect both company see stronger EPS growth momentum in 2008 (30–45% YoY), in view of ongoing structural growth, market share gains and margin improvement.

The two stocks rank very poorly in Macquarie's quant model, with Hana Tour at 185th and Modetour at 212th out of 222 stocks. Both stocks exhibit: 1) downward recommendation or earnings revision; and 2) poor 12-month share price momentum. But we believe the worst is over for Hana Tour and Modetour, and that their valuations and Alpha scores can't get any worse. If the shares rebound, 12-month share price momentum will improve; if 2Q/3Q earnings surprise on the upside, we should see these companies' Alpha scores improve.

Fig 2 Stock recommendation

	Ticker	Rec	Market cap (Won bn)	Price (Won)	TP (Won)	Upside (%)	2008E PER(x)	2008E EPS growth(%)
Hana Tour	039130 KQ	OP	633	54,500	83,000	52	17.8	30
Modetour	080160 KQ	OP	280	33,350	50,000	50	17.0	45

Source: Macquarie Research, May 2008

Demand and margin to recover despite weaker Won and lower commission rate

Concerns overblown

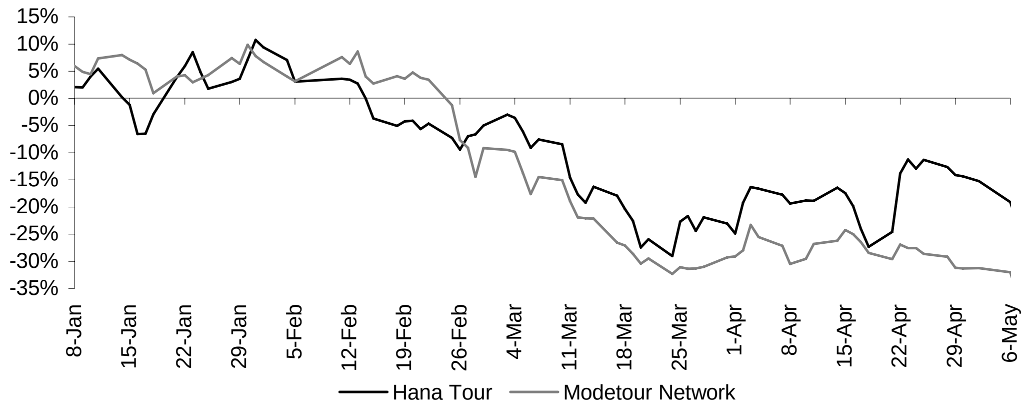
Hana Tour and Modetour's shares have declined sharply this year, we believe on concerns over: 1) the weaker Won, 2) reduced rate for airline ticket sales commissions from 9% to 7% for Korean Air Lines (003495 KS, NR) from April 2008 and Asiana Air Lines (020560 KS, NR) from May 2008; and 3) higher fuel surcharge on airline ticket prices.

Demand and margin to bounce back

However, we believe the share price declines have been excessive, as we expect demand and earnings to bounce back from May, based on the following:

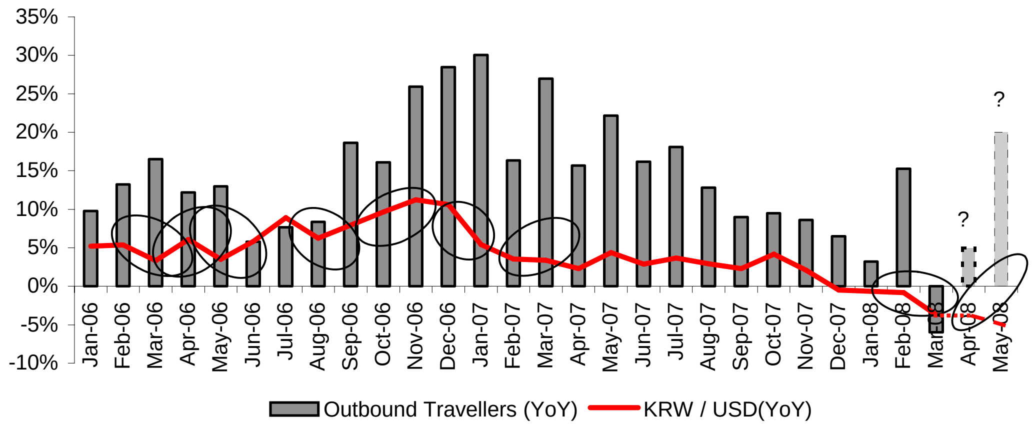
- Hana Tour and Modetour have raised their package tour prices by 5–8%.
- Both companies indicate strong advance bookings for May–June (despite higher prices).

Fig 3 Hana Tour and Modetour shares – relative performace to Kospi, YTD



Source: QuantiWise, Macquarie Research, May 2008

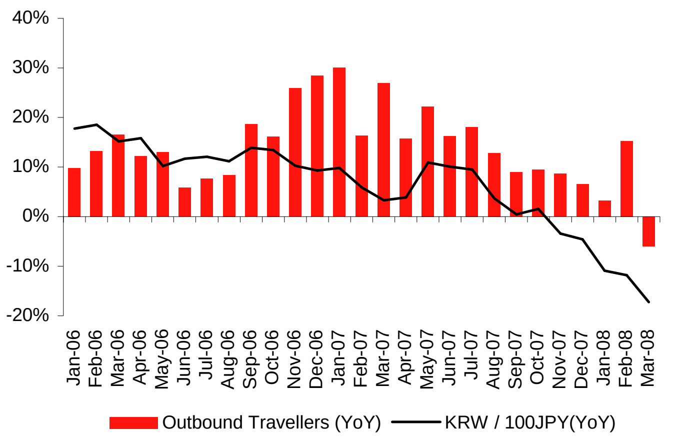
Fig 4 Won/US$ vs outbound travel traffic



Note: Circles indicate when outbound travel traffic and Won/US$ exchange rate moved inversely.

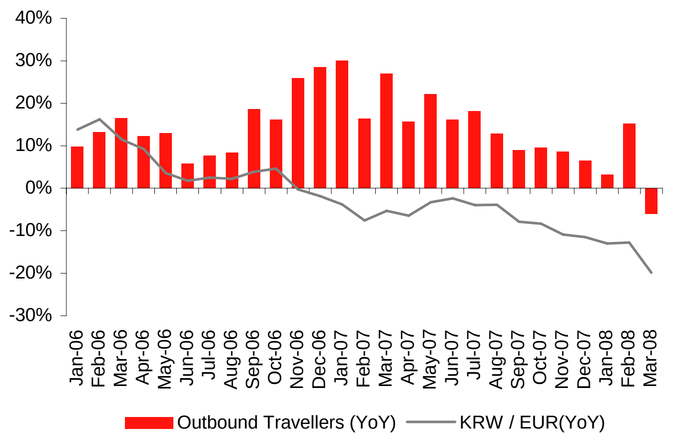
Source: KTO, QuantiWise, Macquarie Research, May 2008

Fig 5 Won/¥ vs outbound travel traffic



Source: KTO, QuantiWise, Macquarie Research, May 2008

Fig 6 Won/Euro vs outbound travel traffic



Source: KTO, QuantiWise, Macquarie Research, May 2008

Package tour prices raised

Price hike to protect gross sales, net sales and margin

Hana Tour and Modetour, the two largest travel agencies in Korea, raised their package tour prices by 5–8% effective April. According to the two companies, the recent price hikes are to cover the impact from the weaker Won (assuming the Won weakens to Won1,050/US$ from Won930/US$), lower airline ticket commission rate of 9% vs 7% previously, and higher airline ticket prices due to the increased fuel surcharge.

Strong booking for May-June despite higher prices

Recovery from May with many no. of holidays

The Won's depreciation has been a negative for overall outbound tourism demand. However, we believe package tour demand will be more resilient to small changes in the forex rate than people think. In an environment of a drastically-depreciating currency, consumers may delay their tour plans for the time being to wait for a more stable forex rate. However, we think pent-up demand can turn up afterwards, unless the Won depreciates significantly further.

The Won depreciated abruptly last March. Total number of outbound travellers (excluding flight attendant) declined by 7% YoY in March 2008. However, with the many number of holidays (and three-day weekends) in May 2008, we think pent-up demand for outbound travelling will turn up.

Of note, both companies indicated that advance booking for May-June tour products is strong with substantial volume (number of travellers) growth. We view this as pent-up demand from the past few months.

More important, bookings were strong even amidst the weaker Won and higher package tour prices. We think that this means the positives (such as changing lifestyles with more focus on quality of life and leisure) still outweigh the negatives (such as the weaker Korean Won) in terms of outbound travel demand.

A step to protect margins

Commission rate for ticket sales paid to retail agents lowered to protect margins

Simple airline ticket sales (excluding airline ticket sales embedded in package tour sales) accounted for only 10% of Hana Tour's revenues (net sales) and 13% of Modetour's in 2007. Hana Tour and Modetour pay 6–7ppt out of 9ppt of the mark-up as commission (SG&A cost) to retail travel agents, and only keep 2–3ppt. The commission that the companies pay to the retail travel agents is likely to be reduced from 6–7ppt to 4–5ppt, following the cut in commissions paid by the airliners; thus, the companies' margin on air ticket sales would be affected.

Ticket commission rate cuts to expedite industry consolidation

We believe the reduced airline ticket commission rates are likely to speed up market consolidation. Top travel agencies such as Hana Tour and Modetour can cover reduced airline ticket commissions by raising package tour prices, whereas smaller retail agents who generate a greater portion of simple airline-ticket sales than package tour sales are likely to suffer from the commission cuts.

Structural growth story intact

We believe the ongoing deep structural changes – eg, more leisure time due to shorter work and school weeks, gradually-rising personal incomes, changing lifestyles (with more emphasis on quality of life and leisure) and the greying population (with time and money) – favour outbound travel demand over the long term.

Greater leisure time

Less days for work, more demand for travel

Growing personal leisure time with reduced working hours, coupled with the gradual introduction of the five-day work week and five-day school week, should boost demand for overseas tourism.

The Korean workforce is set to enjoy greater personal leisure time with the government's introduction of a maximum 40-hour a week (aka five-day work week) that would be compulsory for companies by the end of 2011. As Figure 6 shows, the government has been gradually implementing changes since July 2004, which indicates the full benefits have yet to be realised. We expect Koreans would be diverting their greater leisure time towards activities such as overseas travel.

Less days for schooling, more demand for travel

In March 2005, the five-day school week programme (no classes on Saturday) was introduced initially for one week every month. This was later expanded to two weeks in 2006, taking place every second and fourth Saturday of each month. The programme is likely to be expanded to weekly before 2011.

We have not seen the full effects of the five-day work and school week as of yet. Needless to say, the full implementation of these programmes should expedite the growth of family tours.

Fig 7 Five-day work week implementation in phases

	History of five-day work week program	**% of workers**
Jul-04	Government, public services, financial institutions and companies with 1,000+ employees	10.7
Jul-05	Companies with 300+ employees	17.3
Jul-06	Companies with 100+ employees	26.4
Jul-07	Companies with 50+ employees	34.7
Jul-08	Companies with 20+ employees & local municipalities	47.3
By 2011	Companies with 20 or less	100

Note: % of workers, cumulative.
Source:Ministry of Labour, LGERI, Macquarie Research, May 2008

Fig 8 Five-day school-week

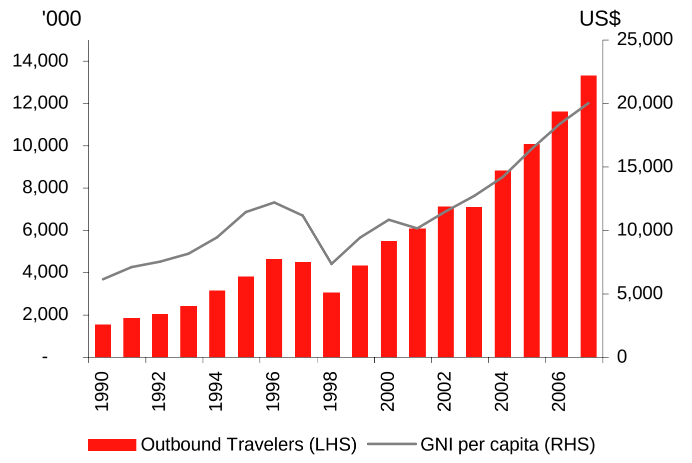
	History of five-day school week programme
May-03	Ministry of Education announces a multi-stage plan for a 5-day school week programme
2004	Pilot programme launched with 10% of elementary, middle and high schools in Korea
Mar-05	All schools adopt the 5-day school week school programme, once a month
2006	All schools start bi-weekly five-day school week programme
2011	The ministry agrees to fully implement five-day school-week programme before 2011.

Source: Ministry of Education, Macquarie Research, May 2008

Gradually-rising personal income

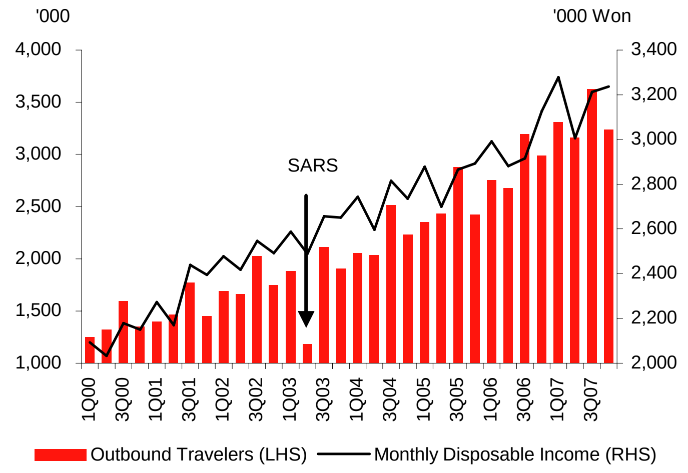
We think overseas travel as a discretionary spending item is positively correlated to income growth. As household disposable incomes rise, so should budgets for leisure activities and overseas travel. We expect the average Korean's disposable income to grow along with stable GDP growth (albeit at a slower rate) in the future.

Fig 9 Outbound travellers vs GNI per capita



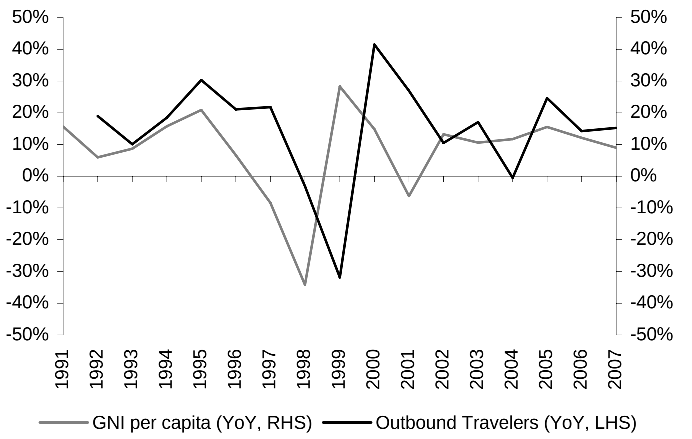
Source: KTO, NSO, Macquarie Research, May 2008

Fig 10 Outbound travellers vs disposable income



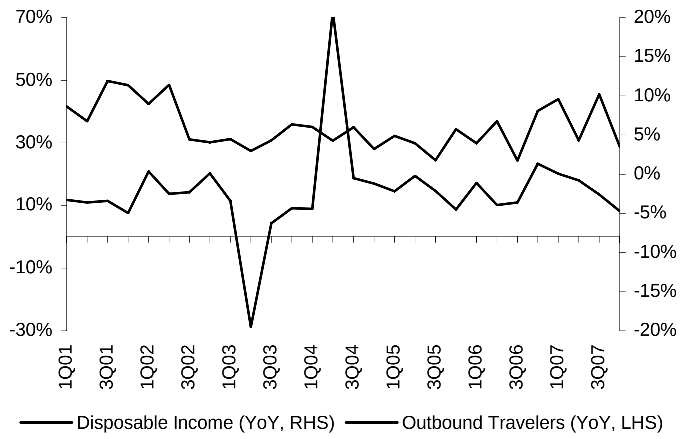
Source: KTO, NSO, Macquarie Research, May 2008

Fig 11 Growth in outbound travellers vs GNI per capita



Source: KTO, NSO, Macquarie Research, May 2008

Fig 12 Growth in outbound travellers vs disposable income



Source: KTO, NSO, Macquarie Research, May 2008

Changing demographics and lifestyle

Favourable changes in demographics

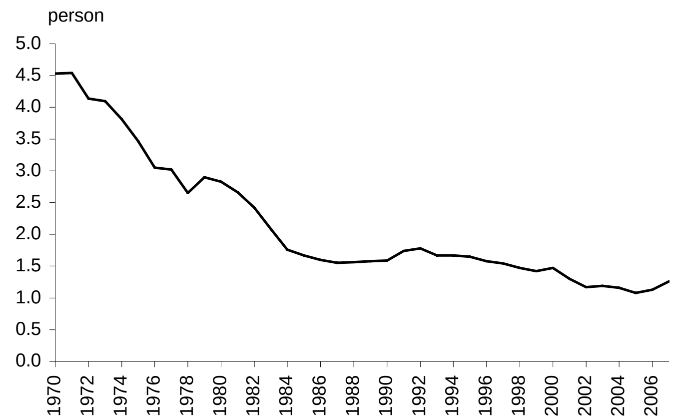
We believe the demographic trend is a long-term positive factor, driving Korean demand for overseas tourism.

Greying population with time and money

With the decline in fertility rates (number of children per female within child-bearing age) to 1.26 in 2007 from 1.59 in 1990 and 2.83 in 1980, Korean households are finding themselves with more leisure time. With less members of the family to take care of, families have more time and resources to spend on leisure activities.

Korea's aging population could be a boon to the travel industry. The rising number of healthy retirees with the financial means to travel boosts the growth of the travel market. According to the Korea National Statistics Office, the ratio of people aged over 65 years to the total population has risen from 5% in 1990, to 10% in 2007, and is expected to reach 13% by 2015.

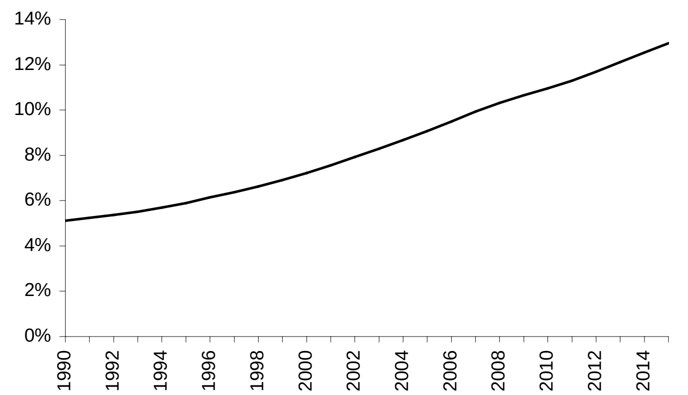
Fig 13 Korea's fertility rate



Note: Fertility rate implies the expected number of children born per female within child-bearing years (15~49)

Source: NSO, Macquarie Research, May 2008

Fig 14 Aging index



Note: Aging index defined as population over 65-year old / total population

Source: NSO, Macquarie Research, May 2008

Changing lifestyles favour outbound travel

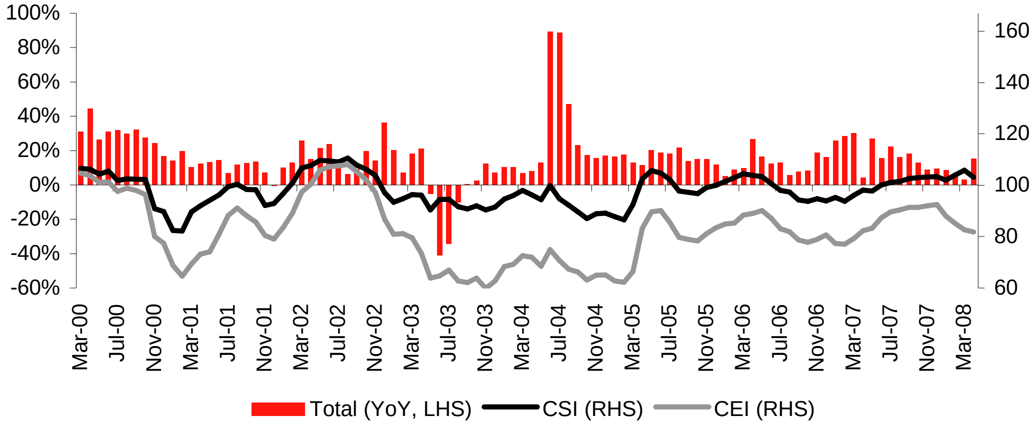
Changing lifestyle favours outbound travel as well

We think the growth in Korean's outbound travel demand can be explained not only by quantitative variables (ie, gradually-rising personal income, favourable currency exchange movement), but also by qualitative factors – lifestyle (culture) changes. As shown in Figure 14, outbound travel traffic increases, even when consumer indices indicate poor sentiment. We attribute this to changing lifestyles (culture).

Relative to the past, Koreans are pursuing better quality of life and more leisure activities as their priorities. Consumers who have experienced overseas travel are more likely to be repeat customers of outbound tourism, in our view.

We believe the positives (ie, growing leisure time and changing lifestyles) still outweigh the negatives (ie, recent unfavourable movement in the currency exchange rate) in terms of outbound travel demand.

Fig 15 Strong outbound travel traffic even when consumer sentiment was weak



Source: NSO, KTO, Macquarie Research, May 2008

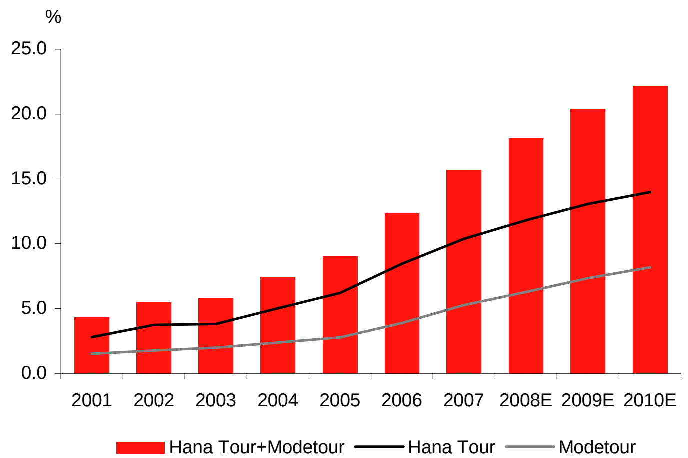
Industry consolidation in progress

Big gets bigger

The low entry barriers to Korea's outbound tourism industry have seen the creation of over 5,000 travel agencies. Capital requirements are low, while popular travel products are easily reproduced. However, becoming a major industry player is difficult, as achieving economies of scale and building brand equities require time and competency.

Due to their competitive advantages, the large travel agencies have outpaced the overall industry. The two dominant travel agencies have been leeching market share from smaller players, enjoying a combined 16% market-share in 2007 vs 12% in 2006, 9% in 2005 and 7% in 2004. (Hana Tour has gained market share from smaller players from 3.8% in 2003 to 10.4% in 2007, whereas Modetour's market share has grown from 2.0% in 2003 to 5.3% in 2007, based on total outbound travellers.)

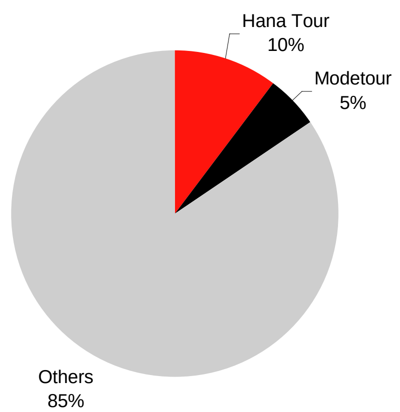
Fig 16 Hana Tour and Modetour market share trend



Note: M/S out of total outbound travellers excluding flight attendants

Source: KTO, Macquarie Research, May 2008

Fig 17 Market share in 2007



Note: M/S out of total outbound travellers excluding flight attendants

Source: KTO, Macquarie Research, May 2008

We believe that both Hana Tour and Modetour will continue to expand their market shares, underpinned by increasingly critical factors like large-scale purchasing power, expanded distribution network and strong brand equity. As the industry naturally consolidates, we think that the entry barriers would become higher as the major players achieve large economies of scale and greater brand equities.

Bargaining and brand power

Competitive edges in economies of scale and brand equity

With larger economies of scale, the major players become more cost-competitive. For instance, large travel agencies are able to negotiate deeper discounts, secure more flight seats and hotel rooms from airlines and hotels, compared to their smaller rivals – even during slow travel periods. The top travel agencies are able to provide diverse travel product packages to customers, which will draw more customers, and consequently derive greater economies of scale.

- Better pricing based on bargaining power.
- Diverse product offerings.
- Ability to execute (proceed) package tours, securing the minimum required number of travellers, without cancellation.
- Securing airline seats and hotels during brisk travel seasons
- Better quality services.

Having brand equity is crucial within the travel service industry, as in the other consumer services' industry. Consumers increasingly prefer large and well-established travel agencies with high brand recognition to smaller ones, believing larger agencies deliver products and services of higher quality.

Growing supply of airline seats

Open-sky is a bilateral or multilateral air transport agreement that liberalises international aviation markets and minimises government intervention. Open-sky agreements normally drive competition between airliners, leading to more supply of airline seats and dragging down ticket prices. Korea has open-sky agreements with several countries and plans to expand further. We think the expansion of open-sky agreements is a catalyst for Korea's travel agencies such as Hana Tour and Modetour, as more supply of airline seats implies that there will be more diverse products with cheaper airline ticket prices.

Open-sky agreements and budget airlines – another positive catalyst

Fig 18 Open-sky agreements by country

Year	Countries
1986	Maldives
1998	USA
2001	Chile
2002	Peru
2006	Vietnam, Thailand, Myanmar, China*, Cambodia, Ukraine, Azerbaijan
2007	Malaysia, Kenya, Sri Lanka, Japan

Note: Listed are passenger agreements. Agreement details may vary by countries

* Partially limited in certain areas, yet to be released in the near future.

Source: MoCT, Macquarie Research, May 2008

Growing number of budget airlines. The increasing number of budget airliners (aka low-cost carriers) is a phenomenon that is clearly positive for travel agencies, as these increases the supply of low-priced airline seats.

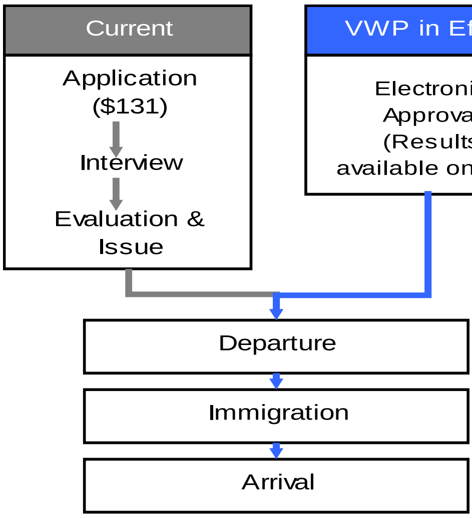
A new kicker for US travel

The US visa waiver programme (VWP), which is scheduled to take effect from late 2008 or early 2009, should boost travel to the US significantly.

US VWP likely to take effect from late 2008 or early 2009

The US and Korea signed the memorandum of understanding (MOU) on the VWP on 19 April 2008. Based on the agreement, Koreans will not need to obtain a visa when they visit the US for up to 90 days for the purpose of business or leisure. Following the MOU signing, the Ministry of Foreign Affairs and Trade announced that Korea will complete the contract by August and start issuing e-passports by September. If the project proceeds as both countries have planned, Koreans will be able to enter the US without a visa from December this year.

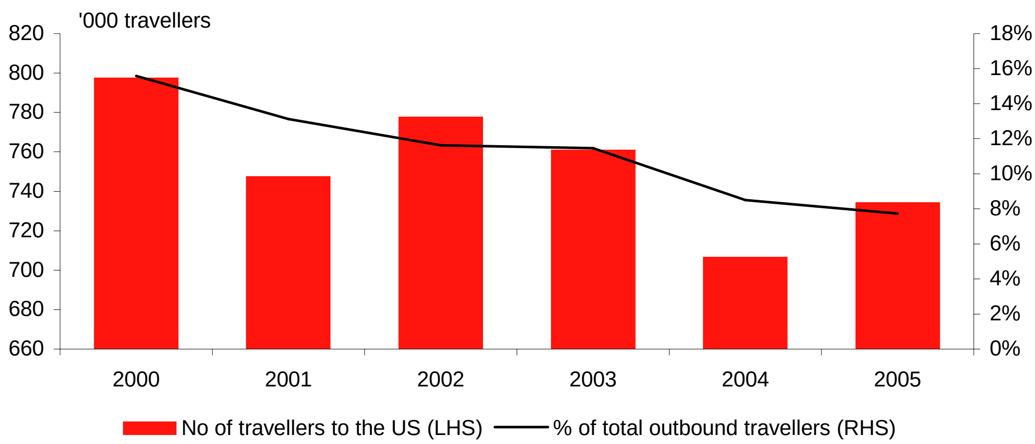
Fig 19 US visa waiver programme



Source: JOINS, Macquarie Research, May 2008

Because of stricter immigration control (including visa issuance) after 2001, US destination travellers, as a percentage of total travellers, has declined from 16% in 2000 to 8% 2005 (and 6% in 2006 and 5% in 2007 based on industry data). According to Hana Tour and Modetour, US destination travellers accounted for only 2% of their total number of travellers in 2007, attributing the significant decrease to stricter visa issuances.

Fig 20 US destination travellers on a decline



Note: From 2006, no official data on destination breakdown from KTO.

Source: KTO, Macquarie Research, May 2008

Demand for travel to the US expected to surge with the VWP

Based on precedents, the implementation of the US VWP usually leads to a significant increase in demand for travel to the US – by two- to three-fold in three years after the implementation. We believe that the US VWP will boost the number of Korean travellers not only to the US (including Hawaii), but also to South American countries.

With the US VWP for Koreans, we estimate that demand for travel to the US will be more than double in three-to-four years.

Fig 21 Growth in number of travellers to the US after US VWP

Country	No. of travellers to US				Growth		
	1986	1987	1988	1989	1986-1987	1986-1988	1986-1989
Australia	247,493	278,196	336,541	406,392	12%	36%	64%
Denmark	68,519	96,440	100,482	107,062	41%	47%	56%
Finland	41,609	51,746	73,968	92,992	24%	78%	123%
France	439,611	544,435	618,506	653,685	24%	41%	49%
Germany	669,845	952,119	1,153,359	1,076,385	42%	72%	61%
Iceland	9,484	13,358	15,420	13,531	41%	63%	43%
Italy	268,270	318,815	356,513	354,920	19%	33%	32%
Japan	1,681,071	2,128,481	2,542,140	3,080,396	27%	51%	83%
Netherlands	162,740	201,692	247,860	260,840	24%	52%	60%
New Zealand	106,621	132,580	152,150	166,774	24%	43%	56%
Norway	77,729	86,279	107,091	105,147	11%	38%	35%
Portugal	24,730	27,245	32,489	35,468	10%	31%	43%
Singapore	35,678	40,807	45,117	48,567	14%	26%	36%
Spain	108,614	129,555	176,775	201,947	19%	63%	86%
Sweden	140,322	186,179	239,964	281,261	33%	71%	100%
Switzerland	182,836	239,299	282,598	274,885	31%	55%	50%
United Kingdom	1,133,683	1,362,479	1,827,831	2,221,871	20%	61%	96%

Source: US Department of Commerce, Office of Travel and Tourism Industries (OTTI), Macquarie Research, May 2008

Still, at a high-growth stage

More room for growth in comparison with Taiwan

No. of outbound travellers/total population in Korea on the rise

Korea and Taiwan share similarities in terms of size, GDP levels and travel infrastructure. The percentage of outbound travellers in Taiwan relative to the population size was 39% in 2007, up from 26% in 2003. In comparison, the percentage in Korea was 25% in 2007, up from 13% in 2003 (multiple-counted for multiple-time travellers). Outbound travel demand in Korea seems to have more room for growth, in comparison with Taiwan.

We think a comparison of the percentage of outbound travellers in Korea relative to its population with that of Japan is not appropriate, as Japan has a lot more domestic travel attractions (tourist spots) than Korean and Taiwan.

Fig 5 Number of outbound travellers to total population –Korea and Taiwan

(Unit: %)	2003	2004	2005	2006	2007
Korea	13	17	20	22	25
Taiwan	26	34	36	38	39
Japan	10	13	14	14	14

Source: Company data, KTO, NSO, May 2008

Traffic CAGR of 10% in 2007–10E

We believe outbound travel demand in Korea is still at a strong growth phase. Structural movements – shorter work and school weeks, easier access to the mass market, ie, more diverse packages, gradually-rising personal incomes, industry consolidation, and more importantly, changing lifestyles (more time and money) – should allow for solid outbound travel growth at 10% CAGR in 2007–10, following 15% in 2004–07.

Investors may argue that a 10% three-year CAGR is not ‘high growth’. Although the projected 10% implies a slowdown from the 15% CAGR in 2004–07, this growth would still be one of the highest in the Korean consumer and consumer service space. Macquarie analyst HongSuk Na expects the Korean cosmetics industry to grow at 5% pa during this period – and this is considered ‘high growth’ compared to other countries. He estimated apparels and household goods to grow at 4% and 3% pa, respectively.

We have assumed an 11.8% YoY growth in the number of total outbound travellers in 2008E (whereas Hana Tour and Modetour expect a 13–14% growth), 9.9% in 2009E and 9.1% in 2010E. We expect Hana Tour and Modetour to continue to gain market shares from smaller players.

Fig 22 Outbound travel forecast (yearly)

	2004	2005	2006	2007	2008E	2009E	2010E
No. of total outbound travellers ('000)	8,009	9,209	10,571	12,295	13,751	15,118	16,487
YoY growth (%)	*26*	*15*	*15*	*16*	*12*	*10*	*9*
No. of travellers ('000) – Hana Tour	403	573	894	1,277	1,626	1,976	2,303
YoY growth (%)	*67*	*42*	*56*	*43*	*27*	*22*	*17*
No. of travellers ('000) - Modetour	192	257	412	649	865	1,110	1,350
YoY growth (%)	*52*	*34*	*60*	*58*	*33*	*28*	*22*
Hana Tour M/S (%)	5	6.2	8.5	10.4	11.8	13.1	14
Modetour M/S (%)	2.4	2.8	3.9	5.3	6.3	7.3	8.2

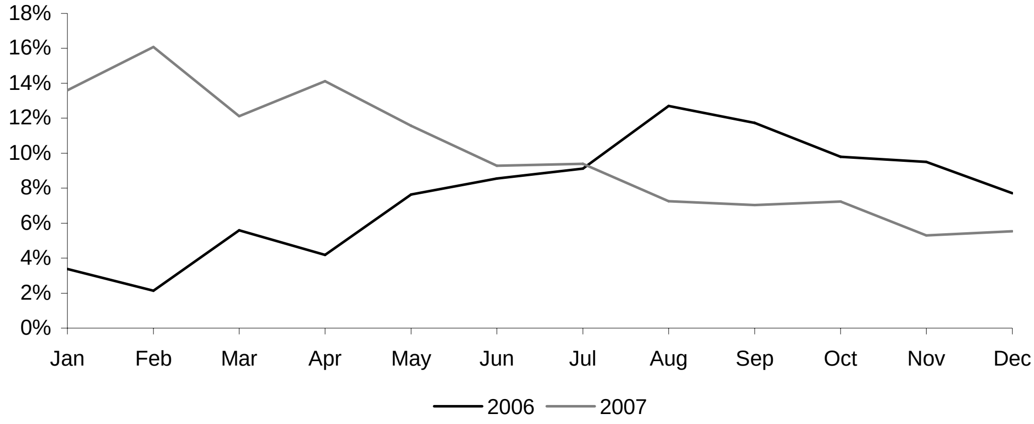
Source: KTO, KATA, Company data, Macquarie Research, May 2008

Stronger growth expected in 2H08 than in1H08

2H08 to have better YoY comparison base than 1H08

The low growth rate (4% YoY) of total outbound travellers in 1Q08 has raised concerns about slowing growth momentum in the outbound travel industry. Outbound travel demand is likely to experience stronger growth in 2H08 than in 1H08 from the low base effects.

Fig 23 High comparison base for 1H08 vs 2H08 (growth in no. of outbound travellers)



Source: KTO, Macquarie Research, May 2008

Fig 24 Outbound travellers (quarterly) – higher growth in 2H08 than 1H08

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08E	3Q08E	4Q08E
No. of total outbound travellers ('000)	3,062	2,902	3,359	2,972	3,182	3,279	3,812	3,478
YoY growth (%)	*26*	*19*	*14*	*8*	*4*	*13*	*14*	*17*
No. of travellers ('000) - Hana Tour	314	299	336	328	353	374	454	444
YoY growth (%)	*57*	*52*	*38*	*30*	*13*	*25*	*35*	*35*
No. of travellers ('000) - Modetour	153	159	175	162	180	209	245	232
YoY growth (%)	*67*	*73*	*60*	*37*	*17*	*32*	*40*	*43*
Hana Tour M/S (%)	10.2	10.3	10	11	11.1	11.4	11.9	12.8
Modetour M/S (%)	5	5.5	5.2	5.5	5.6	6.4	6.4	6.7

Source: KTO, KATA, Company data, Macquarie Research, May 2008

Earnings outlook

EPS growth momentum to recover in 2008E

We forecast that Hana Tour will achieve EPS growth of 33% in 2008E, 35% in 2009E and 24% in 2010E, and Modetour 45% in 2008E, 34% in 2009E and 25% in 2010E, on the back of strong top-line growth with market share gains, and operating profit margin expansion due to operational leverage and reduced losses from unsold hard-block seats.

Fig 25 Hana Tour – income statement summary

Year-end Dec (Won bn)	2006	2007	2008E	2009E	2010E
Sales	**166.3**	**199.3**	**257.3**	**313.7**	**361.6**
Growth (%)	49.8	19.8	29.1	21.9	15.3
Package tour sales	111.9	139.1	191.6	240.1	282.7
Airline ticket sales	42.8	49.2	52.3	57.3	60.2
Others	11.6	11.0	13.5	16.2	18.6
Operating expenses	136.1	163.4	209.6	252.7	288.8
% of sales	81.8	82.0	81.5	80.6	79.9
Operating profit	**30.2**	**35.9**	**47.7**	**61.0**	**72.8**
Growth (%)	70.1	18.8	32.8	27.8	19.5
Operating profit margin (%)	18.2	18.0	18.5	19.4	20.1
EBITDA	31.9	38.0	50.0	63.6	75.7
Growth (%)	68.0	18.9	31.8	27.1	19.2
Net non-operating gain	3.7	4.0	3.2	7.6	12.2
Net interest income	1.7	5.1	6.4	8.5	11.0
Net forex gain	0.3	-0.5	0.0	0.0	0.0
Net equity method gain	0.0	-2.6	-2.6	-0.9	1.2
Pre-tax profit	**33.9**	**39.9**	**50.9**	**68.6**	**85.0**
Income taxes	10.6	13.0	15.3	20.6	25.5
Net profit	**23.3**	**26.9**	**35.7**	**48.0**	**59.5**
Growth (%)	40.0	15.3	32.7	34.7	23.9
Net profit margin (%)	14.0	13.5	13.9	15.3	16.5

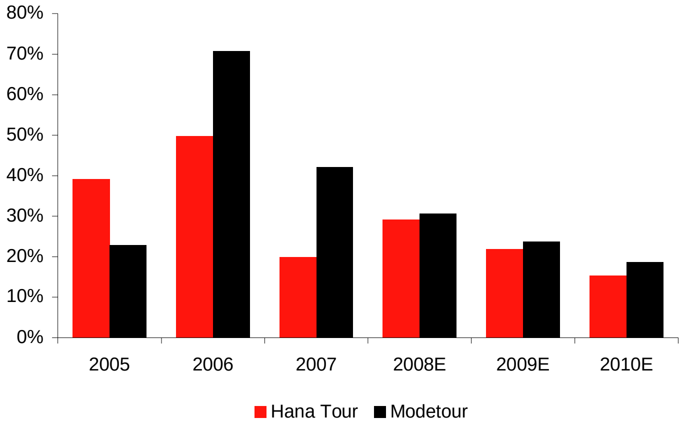
Source: Company data, Macquarie Research, May 2008

Fig 26 Modetour – income statement summary

Year-end Dec (Won bn)	2006	2007	2008E	2009E	2010E
Sales	**66.4**	**94.4**	**123.2**	**152.5**	**180.9**
Growth (%)	70.8	42.1	30.6	23.8	18.7
Package tour sales	39.9	60.0	85.9	112.9	138.8
Airline ticket sales	24.6	30.7	32.5	33.8	35.5
Others	1.9	3.6	4.8	5.8	6.6
Operating expenses	56.6	80.0	103.1	125.5	147.3
% of sales	85.3	84.8	83.6	82.3	81.4
Operating Profit	**9.8**	**14.3**	**20.2**	**27.0**	**33.6**
Growth (%)	204.9	46.7	40.8	34.0	24.4
Operating profit margin (%)	14.7	15.2	16.4	17.7	18.6
EBITDA	10.2	15.0	21.0	28.0	34.7
Growth (%)	190.1	47.4	40.3	33.2	23.7
Net non-operating gain	1.7	1.6	2.8	3.6	4.5
Net interest income	1.3	2.3	3.0	3.5	4.0
Net forex gain	0.1	0.0	0.0	0.0	0.0
Net equity method gain	0.0	-1.5	-0.9	-0.4	0.0
Pre-tax profit	**11.4**	**15.9**	**22.9**	**30.6**	**38.1**
Income Taxes	3.3	4.5	6.4	8.4	10.5
Net Profit	**8.2**	**11.4**	**16.5**	**22.2**	**27.6**
Growth (%)	178.9	39.1	45.3	34.2	24.7
Net profit margin (%)	12.3	12.0	13.4	14.5	15.3

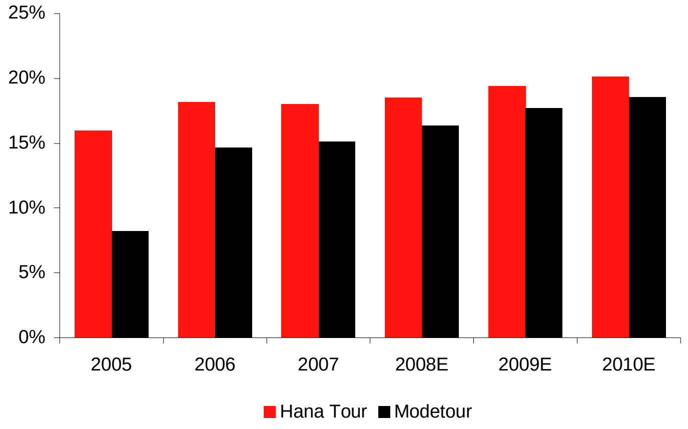
Source: Company data, Macquarie Research, May 2008

Fig 27 Sales growth



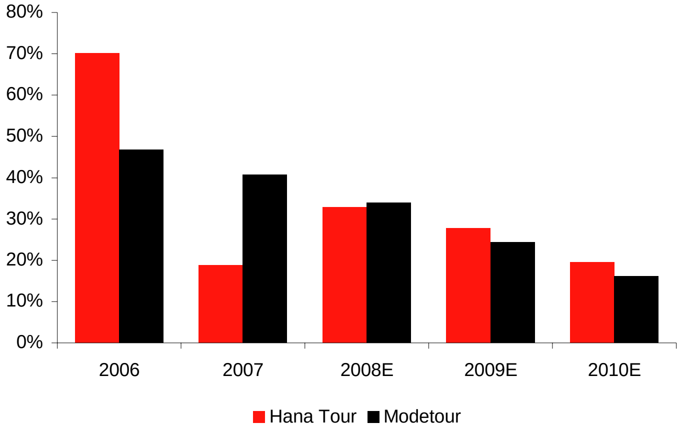
Source: Company data, Macquarie Research, May 2008

Fig 28 OP margin



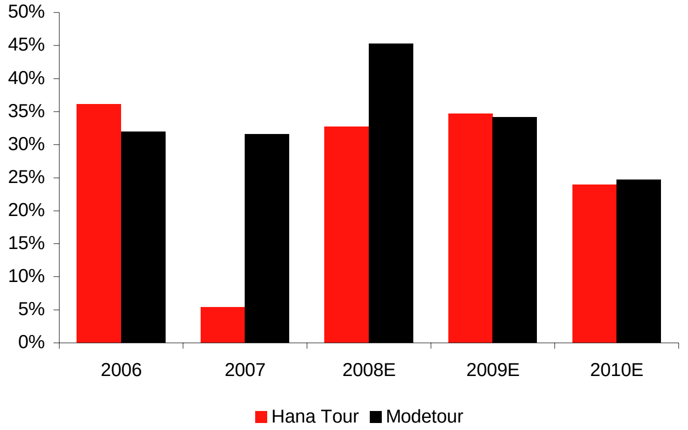
Source: Company data, Macquarie Research, May 2008

Fig 29 Operating profit growth



Source: Company data, Macquarie Research, May 2008

Fig 30 EPS growth



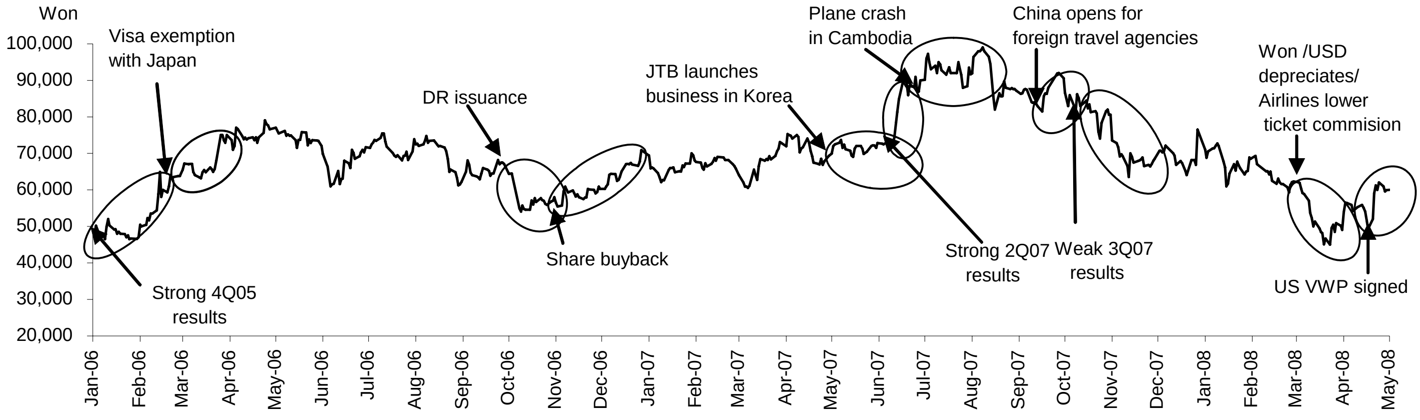
Source: Company data, Macquarie Research, May 2008

Risks to earnings forecasts

- **Miscalculating demand for hard-block seats could lower profitability.** Hard-block seats refer to airline seats that airline companies sell to travel agencies in blocks at 10–30% discounts with upfront fees. Hard-block seats are not subject to refund, which implies travel agencies have to bear all the inventory risks. Leftover seats are sold at a discount to travellers because the travel agencies otherwise would have to recognise the losses. Usually, airliners sell hard-block seats for peak season and slow season as a package. However, hard-block losses are likely to be reduced from 2008 compared to the past, as both companies plan (and need) to reduce the proportion of hard-block seats from 2008.
- **Short-term demand susceptible to unexpected accidents.** Despite the impact likely being only short term, natural disasters (such as earthquake, flood, tsunami), epidemics (such as SARS, avian flu) as well as terrorism would affect travel demand negatively.
- **Drastic increases in airline ticket prices.** Airline ticket costs account for the highest proportion of outbound package tour prices. A significant and drastic price increase of airplane tickets, for instance, due to fuel surcharge hikes, could dampen demand for outbound travel.
- **Deterioration of domestic economy and weak Won.** Although overseas travel demand is growing regardless of weaker consumption sentiment and the weaker Won, a deep economic slowdown and a significant depreciation of the Won would likely adversely affect outbound travel demand.

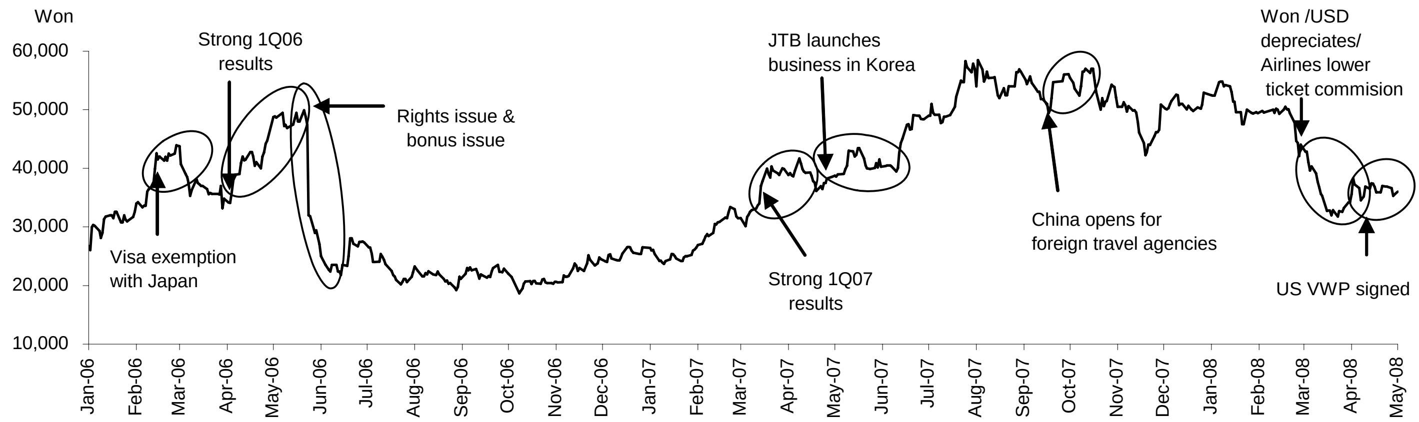
Compelling valuations

Fig 31 Hana Tour share price with key events



Source: QuantiWise, Company data, local press reports, Macquarie Research, May 2008

Fig 32 Modetour share price with key events



Source: QuantiWise, Company data, local press reports, Macquarie Research, May 2008

Targets derived by DCF

We initiate coverage on Hana Tour and Modetour with Outperform recommendations. We have valued both companies based on DCF methodology, applying a 10.5% WACC (beta of 0.9; market risk premium of 5.0%; risk free rate of 6.0%) and a 3% terminal growth. We derive a target price of Won83,000 for Hana Tour and Won50,000 for Modetour.

Conservatively-set targets on 2009E PER terms

Our target price of Won83,000 for Hana Tour translates into 2009E PER of 20x, which we believe is achievable, given that the shares have historically traded at an average 12-month forward PER of 23x and a peak PER of 36x since 2005.

Our target price of Won50,000 for Modetour equates to 2009E PER of 19x, which we think is conservative, given that the shares have traded at an average 12-month forward PER of 21x and a peak PER of 34x since its listing on July 2005.

Fig 33 Hana Tour – DCF valuation summary

(Won bn)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
NOPLAT	34.6	44.2	52.8	60.0	67.5	75.7	84.7	94.4	104.8	116.1
Depr + Amort.	2.3	2.6	2.9	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Chg in Net WC	-5.5	-5.4	-4.6	-4.3	-4.4	-5.0	-5.6	-6.2	-7.0	-7.7
Capex	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Free Cash Flow	29.7	39.8	49.5	56.6	64.1	71.8	80.1	89.1	98.9	109.4
PV of FCF	29.7	36.0	40.5	41.9	43.0	43.6	44.0	44.3	44.5	44.5
Sum of FCF's PV	412.1									
PV of TV	611.5									
Enterprise Value	1023.6									
Other Assets	12.7									
- Net Debt (net cash)	69.0									
Equity Value	967.3									
No of shares	11,616									
Value/share (Won)	**83,274**									

Source: Macquarie Research, May 2008

Fig 34 Modetour – DCF valuation summary

(Won bn)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
NOPLAT	14.6	19.6	24.4	28.3	32.0	35.9	40.1	44.3	48.4	52.5
Depr + Amort.	0.9	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Chg in Net WC	-2.9	-3.0	-2.9	-2.8	-2.5	-2.9	-3.2	-3.6	-4.0	-4.3
Capex	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Free Cash Flow	11.3	16.4	21.3	25.4	29.4	33.1	36.8	40.6	44.4	48.2
PV of FCF	11.3	14.8	17.4	18.9	19.7	20.1	20.2	20.2	20.0	19.6
Sum of FCF's PV	182.2									
PV of TV	269.3									
Enterprise Value	451.6									
Other Assets	2.7									
- Net Debt (net cash)	35.3									
Equity Value	419.0									
No of shares	8,400									
Value/share (Won)	**49,878**									

Source: Macquarie Research, May 2008

Fig 35 Hana Tour – valuation at target price

Target price (Won)	**83,000**		
Upside potential (%)	52.3		
@ target price	**2008E**	**2009E**	**2010E**
PER (x)	27.0	20.1	16.2
EPS growth (%)	29.6	34.7	23.9
PEG (x)	0.9	0.6	0.7
P/BV (x)	7.7	6.1	5.1
ROE (%)	31.8	33.9	34.3

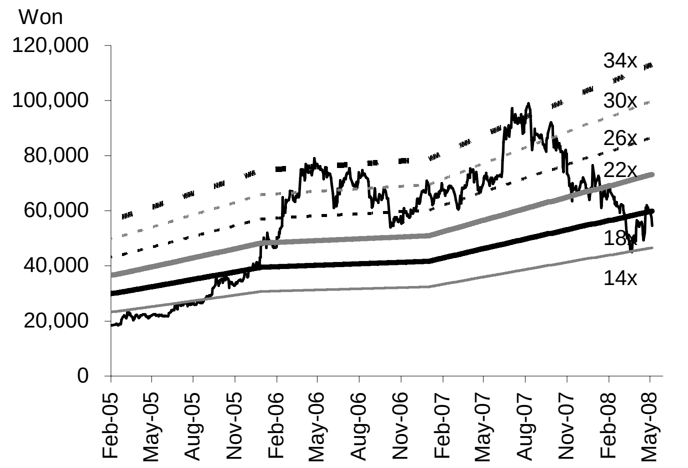
Source: Macquarie Research, May 2008

Fig 36 Modetour – valuation at target price

Target price (Won)	**50,000**		
Upside potential (%)	49.9		
@ target price	**2008E**	**2009E**	**2010E**
PER (x)	25.4	19.0	15.2
EPS growth (%)	45.3	34.2	24.7
PEG (x)	0.6	0.6	0.6
P/BV (x)	5.9	4.7	3.9
ROE (%)	25.5	27.4	27.9

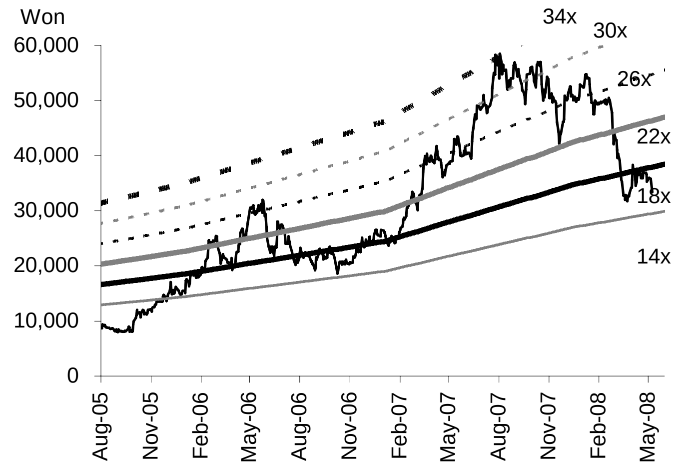
Source: Macquarie Research, May 2008

Fig 37 Hana Tour – 12-month forward PER



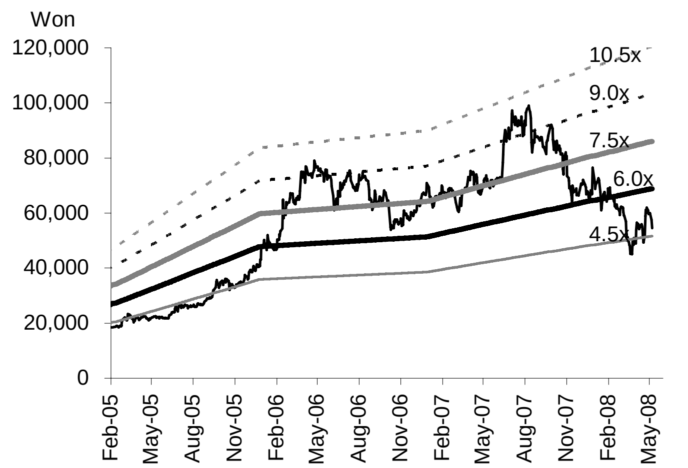
Source: Macquarie Research, May 2008

Fig 38 Modetour – 12-month forward PER



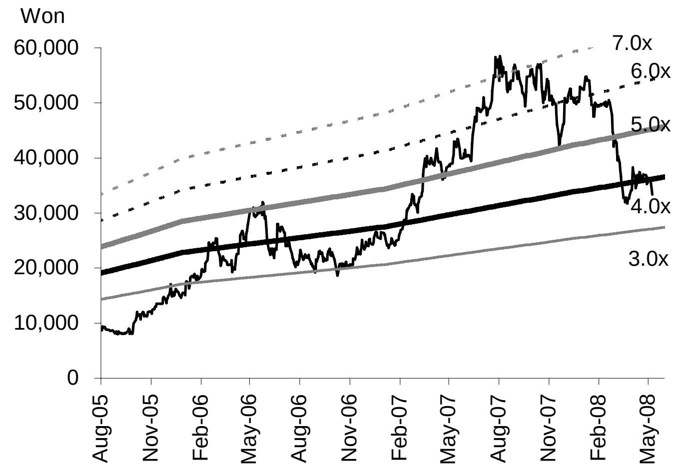
Source: Macquarie Research, May 2008

Fig 39 Hana Tour – 12-month forward P/BV



Source: Macquarie Research, May 2008

Fig 40 Modetour – 12-month forward P/BV



Source: Macquarie Research, May 2008

Undervalued, considering strong growth prospects and ROE

Hana Tour's shares are currently trading at 17.8x 2008E PER and 13.2x 2009E PER, with EPS growth of 29.6% in 2008E and 34.7% in 2009E. Modetour's shares are trading at 17x 2008E PER with EPS growth of 45.3%, and 12.6x 2009E PER with EPS growth of 34.2%.

Hana Tour's shares currently trade at 5.1x 2008E P/BV and 4.0x 2009E PER with the projected ROE of 31.8% in 2008E and 33.9% in 2009E. Modetour shares are trading at 3.9x 2008E P/BV and 3.1x 2009E P/BV with forecast ROE of 25.5% and 27.4%, respectively.

Among the cheapest by PEG measure

Hana and Mode at 2009E PEG of 0.4x vs 0.8x

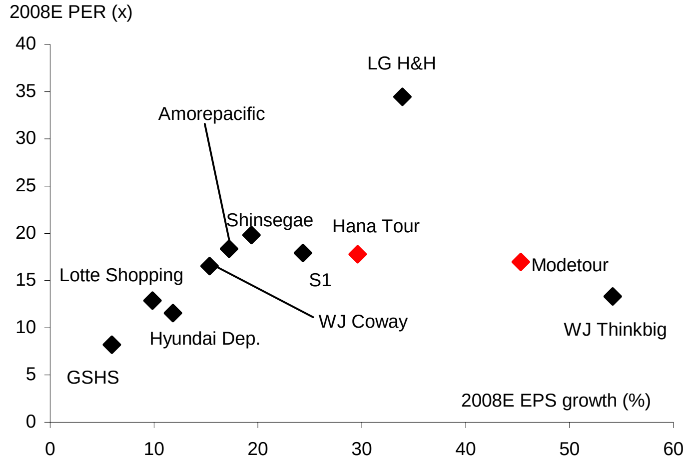
Hana Tour's shares trade at a 2008E PEG of 0.6x and 2009E PEG of 0.4x. Modetour's shares trade at PEG of only 0.4x for both 2008E and 2009E. On PEG terms, the two stocks are significantly undervalued compared to other consumer and consumer service stocks in Korea. The average PEG of selected Korean consumer stocks is 0.9x in 2008E and 0.8x in 2009E, based on Macquarie estimates.

Fig 41 Korean consumer companies

Company		Hana Tour	Modetour	Shinsegae	Lotte Shopping	Hyundai Dep.	Amore pacific	LG H&H	GSHS	WJ Thinkbig	S1 Corp.	WJ Coway	Binggrae
Code		039130	080160	004170	023530	069960	090430	051900	028150	095720	012750	021240	005180
Recommendation		OP	OP	OP	OP	OP	OP	OP	OP	OP	OP	OP	OP
Current price (Won)		54,500	33,350	650,000	365,000	100,000	611,000	217,000	66,100	26,800	63,600	33,100	38,800
Target price (Won)		83,000	50,000	740,000	375,000	118,000	760,000	240,000	75,000	34,000	70,000	43,000	50,000
Upside (%)		52.3	49.9	17.8	11.6	13.5	34.5	14.8	18.3	41.7	14.8	44.3	41.4
Market cap (Won bn)		633.1	280.1	11,844.4	9,758.6	2,359.3	3,302.9	3,390.2	416.1	591.8	2,318.0	2,218.1	348.2
PER (x)	2008E	17.8	17.0	19.8	12.9	11.6	18.4	34.4	8.2	13.3	17.9	16.5	9.2
	2009E	13.2	12.6	17.5	11.7	10.9	15.6	25.1	7.4	10.6	15.9	13.3	7.5
EPS growth (%)	2008E	29.6	45.3	19.4	9.8	11.8	17.2	33.9	5.9	54.1	24.3	15.3	8.5
	2009E	34.7	34.2	13.2	9.7	6.6	17.4	37.2	11.1	25.5	12.6	24.1	22.3
PEG	2008E	0.6	0.4	1.0	1.3	1.0	1.1	1.0	1.4	0.2	0.7	1.1	1.1
	2009E	0.4	0.4	1.3	1.2	1.6	0.9	0.7	0.7	0.4	1.3	0.6	0.3
P/BV (x)	2008E	5.1	3.9	3.0	1.1	1.6	3.5	8.0	1.1	2.9	4.1	3.7	1.2
	2009E	4.0	3.1	2.6	1.0	1.4	3.0	6.4	1.0	2.5	3.5	3.2	1.1
ROE (%)	2008E	31.8	25.5	16.6	8.9	14.4	20.6	25.4	14.2	23.7	24.6	23.7	14.1
	2009E	33.9	27.4	16.0	8.9	13.6	20.5	28.3	14.4	25.2	23.5	25.4	15.4
Sales growth (%)	2008E	29.1	30.6	11.8	7.9	3.1	7.9	11.7	5.6	12.6	10.5	8.9	5.1
	2009E	21.9	23.8	8.1	8.7	3.0	7.5	9.9	4.5	6.4	3.4	7.7	5.9

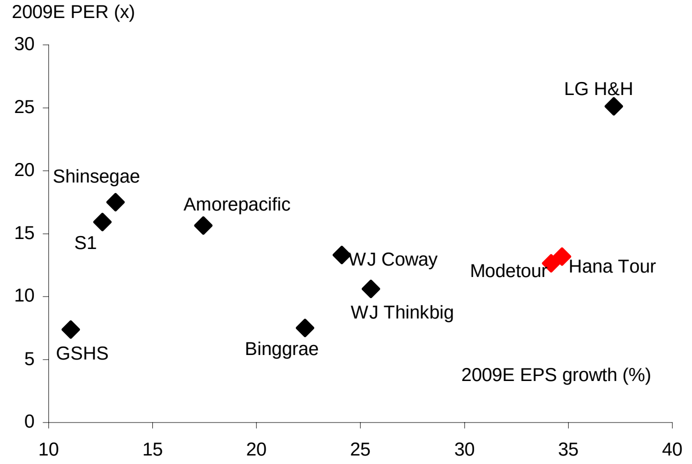
Source: Macquarie Research, May 2008

Fig 42 Korean consumers – 2008E PER vs EPS growth



Source: Macquarie Research, May 2008

Fig 43 Korean consumers – 2009E PER vs EPS growth



Source: Macquarie Research, May 2008

We believe Hana Tour and Modetour have more-stable earnings growth prospects and superior ROEs than their regional peers, based on our and consensus estimates. We think the premium valuation to their regional peers is justified. However, both Hana Tour and Modetour are trading at significant discounts.

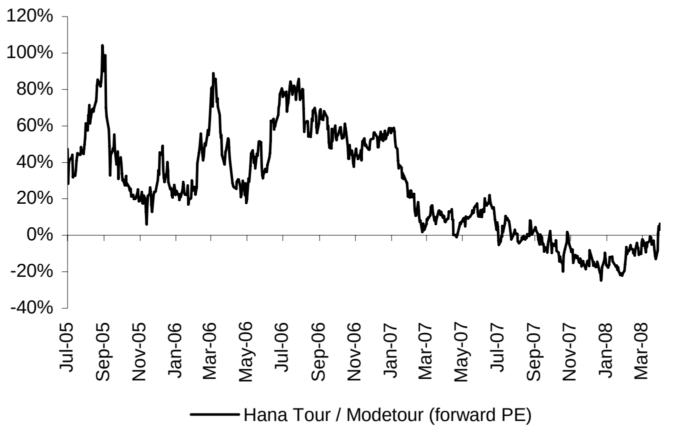
Fig 44 Comparable analysis

		Hana Tour	Modetour Networks	CTRIP.COM	eLong.Inc	China CYTS Tours	China Travel Intl.	Lijiang Yulong Tourism Co.
Code		039130KR	080160KR	CTRPUS	LONGUS	600138CH	308HK	002033CH
Currency		Won	Won	US$	US$	CNY	HKD	CNY
Price		54,500	33,350	66.8	9.9	27.2	3.5	19.8
Market cap (bn)		633.1	280.1	4.4	0.2	8.7	19.9	2.0
Fiscal YE		Dec	Dec	Dec	Dec	Dec	Dec	Dec
P/E (x)	2008E	17.8	17.0	48.6	127.7	35.7	22.3	28.4
	2009E	13.2	12.6	35.2	43.3	26.3	22.0	21.4
	2010E	10.6	10.1	27.2	n.a.	n.a.	21.9	17.8
EPS growth (%), yoy	2008E	29.6	45.3	-71.8	-118.8	49.5	86.0	20.3
	2009E	34.7	34.2	38.2	195.0	35.6	1.1	32.7
	2010E	23.9	24.7	29.4	n.a.	n.a.	0.7	20.0
P/BV (x)	2008E	5.1	3.9	16.2	n.a.	4.6	1.7	4.6
	2009E	4.0	3.1	11.5	n.a.	n.a.	1.6	4.1
	2010E	3.4	2.6	8.9	n.a.	n.a.	1.6	3.5
ROE (%)	2008E	31.8	25.5	33.3	n.a.	12.8	7.7	16.2
	2009E	33.9	27.4	32.7	n.a.	n.a.	7.5	19.0
	2010E	34.3	27.9	32.7	n.a.	n.a.	7.3	19.9
Sales growth (%)	2008E	29.1	30.6	-78.8	-84.2	23.8	15.6	15.0
	2009E	21.9	23.8	42.5	20.4	11.0	14.8	31.7
	2010E	15.3	18.7	40.8	n.a.	n.a.	9.1	12.5
OP margin (%)	2008E	18.5	16.4	32.8	n.a.	11.5	16.5	52.1
	2009E	19.4	17.7	35.3	n.a.	12.7	18.7	48.9
	2010E	20.1	18.6	33.3	n.a.	n.a.	20.9	52.4

Source: FactSet, Macquarie Research, May 2008

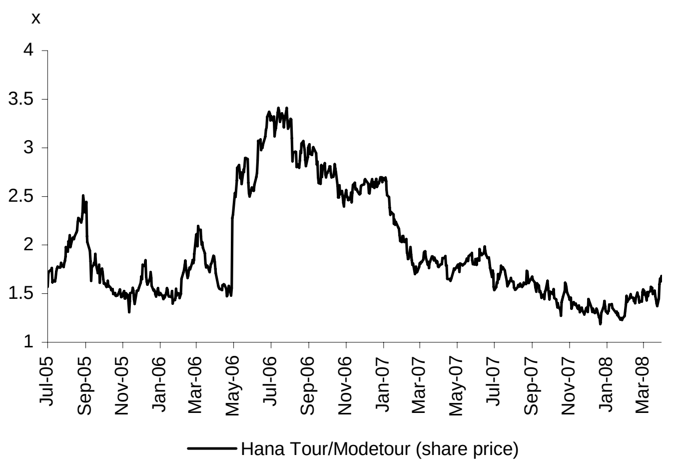
We prefer Hana Tour over Modetour, given Hana Tour's stronger market position (brand) and stock liquidity, and from a technical standpoint. We believe that Hana Tour, as market leader, deserves a premium valuation to Modetour.

Fig 45 12m forward PER of Hana Tour vs Modetour



Source: Macquarie Research, May 2008

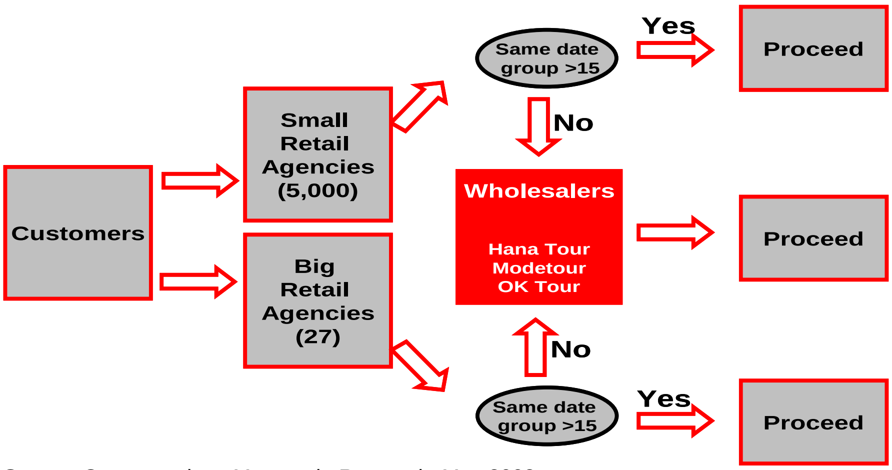
Fig 46 Relative share price of Hana Tour vs Modetour



Source: Macquarie Research, May 2008

Appendices

Fig 47 Wholesale travel agency – business model



Source: Company data, Macquarie Research, May 2008

Macquarie Research Equities

KOREA

Hana Tour Services

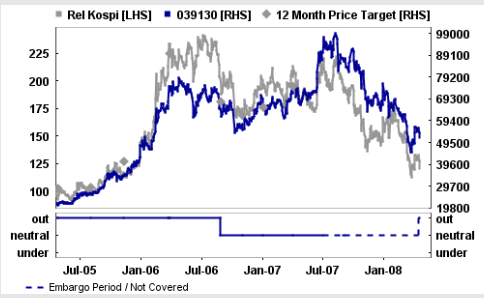
9 May 2008

039130 KQ		Outperform
Stock price as of 07 May 08	Won	54,500
12-month target	Won	83,000
Upside/downside	%	+52.3
Valuation	Won	83,000
- DCF (WACC 10.5%)		
GICS sector		consumer services
Market cap	Won m	633,072
30-day avg turnover	Won m	7,987.8
Market cap	US$m	629
Number shares on issue	m	11.62

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	bn	199.3	257.3	313.7	361.6
EBIT	bn	35.9	47.7	61.0	72.8
EBIT Growth	%	18.8	32.8	27.8	19.5
Reported profit	bn	26.9	35.7	48.0	59.5
Adjusted profit	bn	26.9	35.7	48.0	59.5
EPS rep	Won	2,358	3,070	4,136	5,126
EPS rep growth	%	6.0	30.2	34.7	23.9
EPS adj	Won	2,369	3,070	4,136	5,126
EPS adj growth	%	6.1	29.6	34.7	23.9
PE rep	x	23.1	17.8	13.2	10.6
PE adj	x	23.0	17.8	13.2	10.6
Total DPS	Won	900	1,250	1,700	2,100
Total div yield	%	1.7	2.3	3.1	3.9
ROA	%	19.5	24.2	26.9	28.2
ROE	%	28.0	31.8	33.9	34.3
EV/EBITDA	x	15.2	11.3	8.6	7.0
Net debt/equity	%	-96.2	-94.2	-92.0	-89.6
Price/book	x	6.4	5.1	4.0	3.4

039130 KQ rel Kospi performance, & rec history



Source: Datastream, Macquarie Research, April 2008 (all figures in Won unless noted)

Analyst

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Leader of the pack

Event

- We initiate coverage of Hana Tour Service (Hana Tour) with an Outperform rating and a target price of Won83,000.

Impact

- **Great timing.** Hana Tour shares are down 23% YTD or 45% from its all-time peak of Won99,000 on August 2007, we believe due to worries of the weakened Won and slower outbound travel. We think the precipitous fall in the share price was excessive. The company has raised package tour prices, effective from April. However, May−June advance bookings are strong, despite the weaker Won and raised package tour prices.
- **Faster-than-industry traffic growth.** We expect the company to continue generating faster-than-industry (10% CAGR 2007-10) traffic growth, due to its position as a leader of the outbound package tour market in Korea, mainly on continued market share gains vis-à-vis industry consolidation. We expect the company's outbound travel business to grow at 22% CAGR (vs 47% CAGR from 2004−07) on structural changes such as greater leisure time, changing lifestyle and ageing population. We forecast Hana Tour's top line, operating profit and EPS to grow at 22%, 27% and 30% CAGR during 2007–10.
- **US visa waiver programme (VWP) good for business.** We expect that US VWP, scheduled to be implemented in late 2008 or early 2009, will significantly boost travelling to the US, which has slowed significantly since 2001. Based on other countries' precedents, the US VWP should lead to a sharp increase in travel to the US, perhaps as much as 2–3x over a three-year period. Hana Tour would thus benefit. The company has established a wholly owned US subsidiary to differentiate its services from the others.

Earnings revision

- Initiation of coverage.

Price catalyst

- 12-month price target: Won83,000 based on a DCF methodology.
- Catalyst: Strong outbound travel traffic data, market share gain, margin expansion and the US VWP.

Action and recommendation

- **Solid company, solid stock.** Hana Tour has over time proved it is innovative and able to stay on top of the game, fending off competition even from Internet travel agencies. We believe its CEO is hands-on, at the cutting edge of the industry and shareholder-friendly, taking home the same bonus amount other employees get if the company meets targets. You likely know the positives and why the shares have been derailed. Nothing has changed and shares have become cheap vs historical levels (average PER of 23x and peak PER of 36x since 2005). Our Won83,000 target translates into a 20x 2009E PER. **Outperform.**

Outperform rating with a target price of Won83,000

We initiate coverage of Hana Tour with an Outperform rating and a target price of Won83,000, based on a DCF methodology. We find DCF appropriate for deriving a target price for Hana Tour in the long term, as its returns and free cashflow generation are strong and relatively predictable. By applying 10.5% WACC (cost of equity 10.5%; beta 0.9; risk premium 5.0%; risk-free rate 6.0%; debt-to-equity ratio 0%; and effective corporate tax rate 27.5%) and a 3% terminal growth rate, we have derived a fair value of Won83,274/sh for Hana Tour.

Fig 1 Hana Tour − DCF valuation

(Won bn)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
NOPLAT	34.6	44.2	52.8	60.0	67.5	75.7	84.7	94.4	104.8	116.1
Depr. + Amortisation	2.3	2.6	2.9	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Change in Net WC	-5.5	-5.4	-4.6	-4.3	-4.4	-5.0	-5.6	-6.2	-7.0	-7.7
Capex	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Free Cash Flow	29.7	39.8	49.5	56.6	64.1	71.8	80.1	89.1	98.9	109.4
PV of FCF	29.7	36.0	40.5	41.9	43.0	43.6	44.0	44.3	44.5	44.5
Sum of FCF's PV	412.1									
PV of TV	611.5									
Enterprise Value	1,023.6									
Other Assets	12.7									
- Net Debt (net cash)	69.0									
Equity Value	967.3									
No of shares	11,616									
Value/share (Won)	**83,274**									
WACC (%)	10.5									
Cost of Equity (%)	10.5									
Beta	0.90									
Market risk premium (%)	5.0									
Risk Free Rate (%)	6.0									
Terminal Value										
FCF n+1	112.7									
WACC (%)	10.5									
Terminal growth (%)	3.0									
TV	1,502.0									
PV of TV	611.5									

Source: Macquarie Research, May 2008

Fig 2 Hana Tour − Sensitivity of DCF value

		Terminal Growth				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	9.5%	81,644	88,790	98,134	110,877	129,283
	10.0%	76,218	82,318	90,162	100,620	115,261
	10.5%	71,383	76,629	**83,274**	91,963	103,811
	11.0%	67,052	71,591	77,266	84,562	94,289
	11.5%	63,150	67,102	71,982	78,165	86,250

Source: Macquarie Research, May 2008

Our DCF-based target price of Won83,000 is equivalent to a 27.0x 2008E PER and a 20.1x 2009E PER. We believe that 2009E PER of 20x is achievable, given that Hana Tour shares have historically traded at an average 12-month forward PER of 23x and peak PER of 36x since 2005.

Fig 3 Hana Tour − Valuation at target price of Won83,000

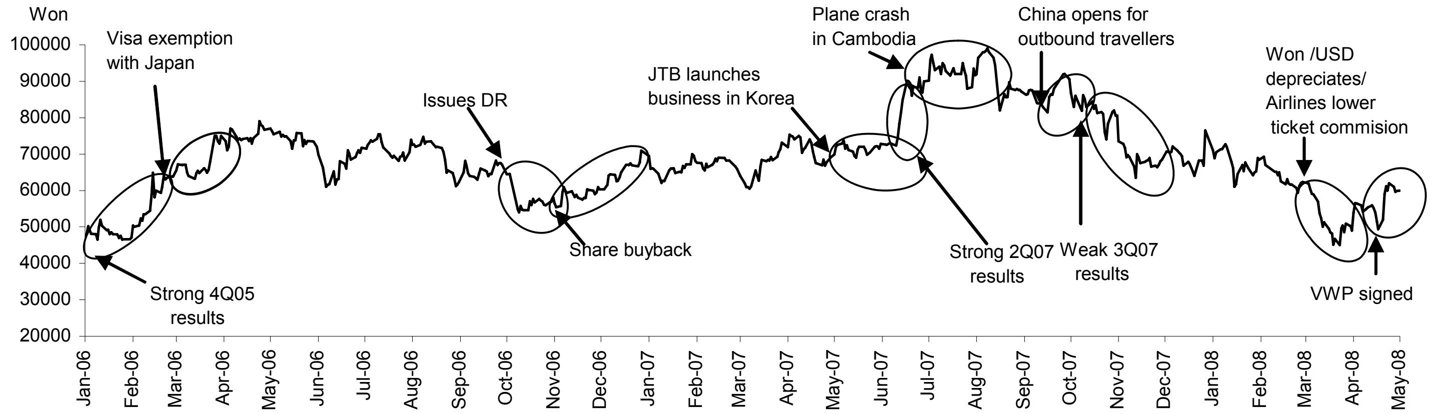
Target price (Won)	**83,000**		
Upside potential (%)	52.3		
@ target price	**2008E**	**2009E**	**2010E**
PER (x)	27.0	**20.1**	16.2
EPS growth (%)	29.6	34.7	23.9
PEG (x)	0.9	0.6	0.7
P/BV (x)	7.7	6.1	5.1
ROE (%)	31.8	33.9	34.3

Source: Macquarie Research, May 2008

Great timing

Hana Tour shares are down 23% YTD or 45% from its all-time peak of Won99,000 on August 2007, we believe on worries of the weakened Won currency and slower outbound travel. We think the precipitous fall in the share price was excessive. First, its package tour prices have been raised, effective from April. Second, advance bookings for May−June (with many holidays and longer-than-three-day weekends) travel are strong, despite the weaker Won and raised package tour prices.

Fig 4 Hana Tour – share price with key events

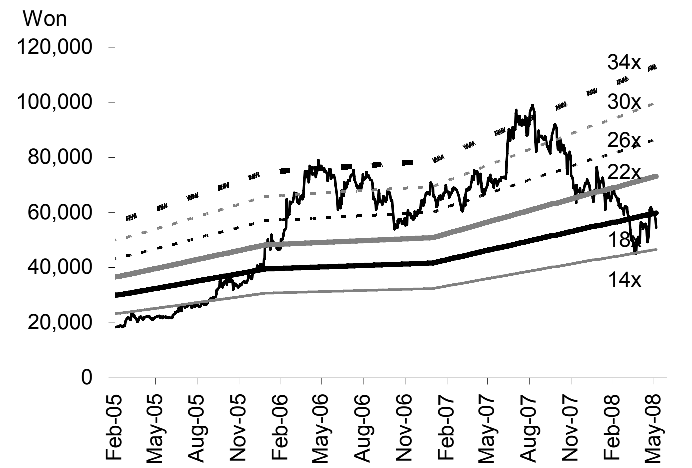


Source: QuantiWise, company data, Maeil Business News, Macquarie Research, May 2008

Still high growth at compelling valuation

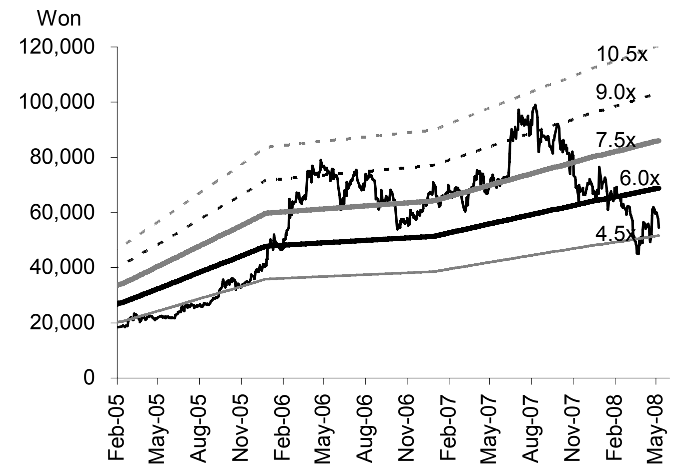
Hana Tour shares are currently trading at 17.8x 2008E PER and 13.2x 2009 PER, with the expected EPS growth of 29.6% in 2008E and 34.7% in 2009E. And the shares currently trade at 5.1x 2008E P/BV and 4.0x 2009E PER with the projected ROE of 31.8% in 2008E and 33.9% in 2009E.

Fig 5 Hana Tour − 12-month forward PER



Source: Macquarie Research, May 2008

Fig 6 Hana Tour − 12-month forward P/BV



Source: Macquarie Research, May 2008

Comparison analysis

Among the cheapest by PEG measure

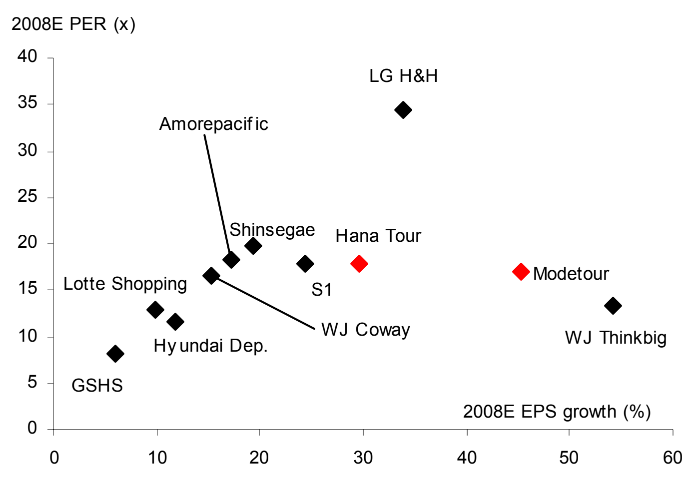
Hana Tour shares to trade at a 2008E PEG of 0.6x and a 2009E PEG of 0.4x based on our earnings forecasts. On PEG terms, Hana Tour shares are significantly undervalued compared to other consumer and consumer service stocks in Korea. The selected Korean consumer and consumer service stocks are trading at an average PEG of 0.9x for 2008E and 0.8x for 2009E, based on Macquarie forecasts.

Fig 7 Korean consumer companies

Company		Hana Tour	Modetour	Shinsegae	Lotte Shopping	Hyundai Dep.	Amore pacific	LG H&H	GSHS	WJ Thinkbig	S1 Corp.	WJ Coway	Binggrae
Code		039130	080160	004170	023530	069960	090430	051900	028150	095720	012750	021240	005180
Recommendation		OP	OP	OP	OP	OP	OP	OP	OP	OP	OP	OP	OP
Current price (Won)		54,500	33,350	650,000	365,000	100,000	611,000	217,000	66,100	26,800	63,600	33,100	38,800
Target price (Won)		83,000	50,000	740,000	375,000	118,000	760,000	240,000	75,000	34,000	70,000	43,000	50,000
Upside (%)		52.3	49.9	17.8	11.6	13.5	34.5	14.8	18.3	41.7	14.8	44.3	41.4
Market cap (Won bn)		633.1	280.1	11,844.4	9,758.6	2,359.3	3,302.9	3,390.2	416.1	591.8	2,318.0	2,218.1	348.2
PER (x)	2008E	17.8	17.0	19.8	12.9	11.6	18.4	34.4	8.2	13.3	17.9	16.5	9.2
	2009E	13.2	12.6	17.5	11.7	10.9	15.6	25.1	7.4	10.6	15.9	13.3	7.5
EPS growth (%)	2008E	29.6	45.3	19.4	9.8	11.8	17.2	33.9	5.9	54.1	24.3	15.3	8.5
	2009E	34.7	34.2	13.2	9.7	6.6	17.4	37.2	11.1	25.5	12.6	24.1	22.3
PEG	2008E	0.6	0.4	1.0	1.3	1.0	1.1	1.0	1.4	0.2	0.7	1.1	1.1
	2009E	0.4	0.4	1.3	1.2	1.6	0.9	0.7	0.7	0.4	1.3	0.6	0.3
P/BV (x)	2008E	5.1	3.9	3.0	1.1	1.6	3.5	8.0	1.1	2.9	4.1	3.7	1.2
	2009E	4.0	3.1	2.6	1.0	1.4	3.0	6.4	1.0	2.5	3.5	3.2	1.1
ROE (%)	2008E	31.8	25.5	16.6	8.9	14.4	20.6	25.4	14.2	23.7	24.6	23.7	14.1
	2009E	33.9	27.4	16.0	8.9	13.6	20.5	28.3	14.4	25.2	23.5	25.4	15.4
Sales growth (%)	2008E	29.1	30.6	11.8	7.9	3.1	7.9	11.7	5.6	12.6	10.5	8.9	5.1
	2009E	21.9	23.8	8.1	8.7	3.0	7.5	9.9	4.5	6.4	3.4	7.7	5.9

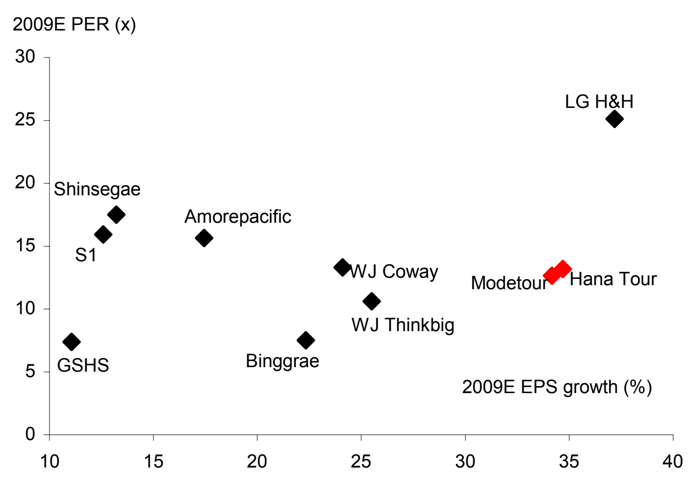
Source: Macquarie Research, May 2008

Fig 8 Korean consumer companies – 2008E PER vs EPS growth



Source: Macquarie Research, May 2008

Fig 9 Korean consumer companies – 2009E PER vs EPS growth



Source: Macquarie Research, May 2008

Peer comparison

Hana Tour appears to have more-stable earnings-growth prospects and superior ROEs than its regional peers, based on our and market consensus estimates. We think a premium valuation to its regional peers is justified. However, Hana Tour shares are trading at a significant discount, compared to its regional peers. We see an upside to the Hana Tour share price.

Fig 10 Tour companies − comparable analysis

		Hana Tour	Modetour Networks	CTRIP.COM	eLong.Inc	China CYTS Tours	China Travel Intl.	Lijiang Yulong Tourism Co.
Code		039130 KQ	080160 KQ	CTRP US	LONG US	600138 CH	308 HK	002033 CH
Currency		Won	Won	US$	US$	CNY	HKD	CNY
Price		54,500	33,350	66.8	9.9	27.2	3.5	19.8
Market cap (bn)		633.1	280.1	4.4	0.2	8.7	19.9	2.0
Fiscal YE		Dec	Dec	Dec	Dec	Dec	Dec	Dec
P/E (x)	2008E	17.8	17.0	48.6	127.7	35.7	22.3	28.4
	2009E	13.2	12.6	35.2	43.3	26.3	22.0	21.4
	2010E	10.6	10.1	27.2	n.a.	n.a.	21.9	17.8
EPS growth (%), YoY	2008E	29.6	45.3	-71.8	-118.8	49.5	86.0	20.3
	2009E	34.7	34.2	38.2	195.0	35.6	1.1	32.7
	2010E	23.9	24.7	29.4	n.a.	n.a.	0.7	20.0
P/BV (x)	2008E	5.1	3.9	16.2	n.a.	4.6	1.7	4.6
	2009E	4.0	3.1	11.5	n.a.	n.a.	1.6	4.1
	2010E	3.4	2.6	8.9	n.a.	n.a.	1.6	3.5
ROE (%)	2008E	31.8	25.5	33.3	n.a.	12.8	7.7	16.2
	2009E	33.9	27.4	32.7	n.a.	n.a.	7.5	19.0
	2010E	34.3	27.9	32.7	n.a.	n.a.	7.3	19.9
Sales growth (%)	2008E	29.1	30.6	-78.8	-84.2	23.8	15.6	15.0
	2009E	21.9	23.8	42.5	20.4	11.0	14.8	31.7
	2010E	15.3	18.7	40.8	n.a.	n.a.	9.1	12.5
OP margin (%)	2008E	18.5	16.4	32.8	n.a.	11.5	16.5	52.1
	2009E	19.4	17.7	35.3	n.a.	12.7	18.7	48.9
	2010E	20.1	18.6	33.3	n.a.	n.a.	20.9	52.4

Source: FactSet, Macquarie Research, May 2008

Earnings forecast

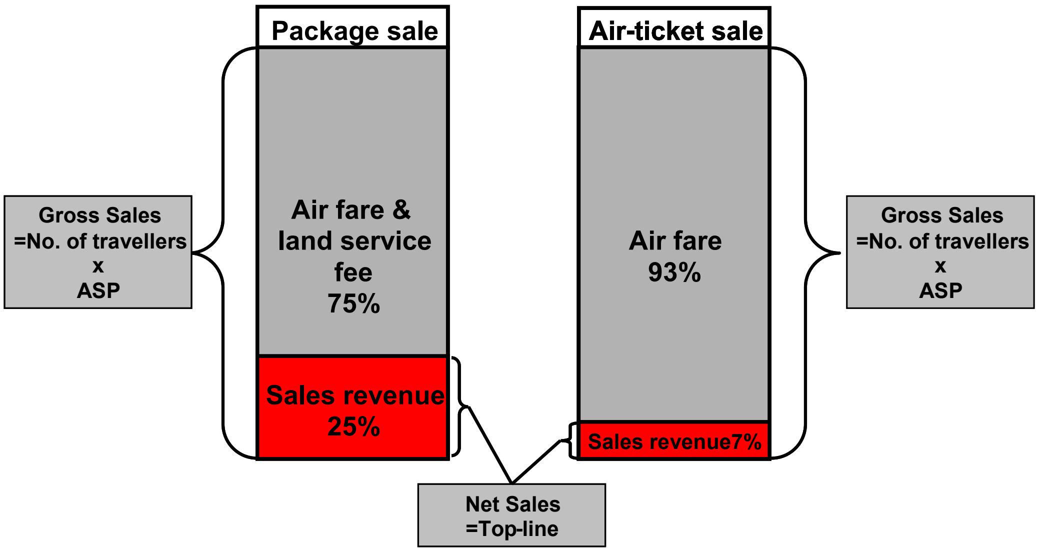
1. Key assumptions – faster-than-industry traffic growth with market share gain

We forecast Korea's number of total outbound travellers would grow 11.8% in 2008E, 9.9% in 2009E and 9.1% in 2010E, following previous 15−16% annual growth. We assume that Hana Tour continues to gain market shares from smaller retail agents, based on its large-scale purchasing power, expanded distribution network and strong brand equity. Our market share assumption for Hana Tour is 11.8% in 2008E, 13.1% in 2009E and 14% in 2010E (up from 10.4% in 2007).

Long-term structural changes, such as gradually-rising personal income, greater leisure time, changing life style and demographics, should boost long-term sustained growth of the whole outbound travel industry. We expec the upcoming implementation of US VWP and increasing supply of airline seats will boost outbound travel demand as well.

The number of outbound travellers is one of the key factors for the company's gross sales. The ASP of package tour sales and airline ticket sales is another key factor. We forecast the number of package tour travellers would rise by 27% in 2008E, 22% in 2009E and 17% in 2010E, following 42−56% annual growth in 2005-07. We forecast the ASP in package tour would increase by 2% in 2008E and 2009E, and by 1% in 2010E, mainly due to reduced loss from unsold hard-block seats and increases in the airline ticket and package tour prices from 2008E onwards.

Fig 11 Hana Tour − profit-sharing scheme (gross sales & net sales)



Source: Company data, Macquarie Research, May 2008

Fig 12 Hana Tour − key assumptions for number of travellers

	2005	2006	2007	2008E	2009E	2010E
No. of outbound travellers (000s)	9,209	10,571	12,295	13,751	15,118	16,487
YoY growth (%)	*15*	*15*	*16*	*12*	*10*	*9*
No. of travellers ('000) - Hana Tour	573	894	1,277	1,626	1,976	2,303
YoY growth (%)	*42*	*56*	*43*	*27*	*22*	*17*
Hana Tour M/S (%)	6.2	8.5	10.4	11.8	13.1	14

Source: KTO, KATA, company data, Macquarie Research, May 2008

Fig 13 Hana Tour – key sales assumption

	2005	2006	2007	2008E	2009E	2010E
Gross sales (Won bn)	**736**	**1,036**	**1,298**	**1,633**	**1,990**	**2,309**
YoY growth (%)	*33.5*	*40.6*	*25.3*	*25.8*	*21.9*	*16.0*
Package tour gross sales (Won bn)	515	803	1,070	1,390	1,723	2,028
YoY growth (%)	*41.5*	*55.9*	*33.3*	*29.9*	*24.0*	*17.7*
No. of travellers ('000)	573	894	1,277	1,626	1,976	2,303
YoY growth (%)	*42.0*	*56.1*	*42.8*	*27.3*	*21.5*	*16.6*
ASP (Won1,000)	899	898	838	855	872	881
YoY growth (%)	*-0.4*	*-0.1*	*-6.7*	*2.0*	*2.0*	*1.0*
Airline ticket gross sales (Won bn)	221	233	228	243	267	281
YoY growth (%)	*18.1*	*5.2*	*-1.9*	*6.6*	*9.9*	*5.1*
No. of travellers ('000)	220	414	408	428	445	458
YoY growth (%)	*-6.9*	*88.3*	*-1.5*	*4.9*	*4.0*	*3.0*
ASP (Won1,000)	1,006	562	560	569	601	613
YoY growth (%)	*26.9*	*-44.1*	*-0.5*	*1.6*	*5.7*	*2.0*
Net sales (Won bn)	**111**	**166**	**199**	**257**	**314**	**362**
YoY growth (%)	*39.2*	*49.8*	*19.8*	*29.1*	*21.9*	*15.3*
Package tour net sales (Won bn)	68	112	139	192	240	283
YoY growth (%)	*31.6*	*63.5*	*24.3*	*37.7*	*25.3*	*17.7*
Airline ticket net sales (Won bn)	35	43	49	52	57	60
YoY growth (%)	*32.0*	*22.2*	*14.8*	*6.3*	*9.7*	*5.1*
Others (Won bn)	8	12	11	13	16	19
YoY growth (%)	*520.4*	*53.3*	*-4.5*	*22.1*	*20.0*	*15.0*

Source: Company data, Macquarie Research, May 2008

2. Earnings outlook – still high growth prospects

We forecast Hana Tour's top-line (net sales) to grow 29% in 2008E, 22% in 2009E and 15% in 2010E on the back of strong growth in outbound travellers and market share gain.

Hana Tour's operating profit margin improved from 14.4% in 2003 to 18.2% in 2006, thanks mainly to the growing economies of scale and operational leverage effects. However, operating profit margin slightly contracted in 2007 to 18%, from 18.2% in 2006, due mainly to unsold hard-block seats (mis-estimating hard-block demands in advance). We expect its operating profit margin to resume expanding to 18.5% in 2008E, 19.4% in 2009 and 20.1% in 2010E, based on reduced hard-block portion from 2008E and operating leverage effects.

We forecast Hana Tour's net profit would grow by 33% in 2008E, 35% in 2009E and 24% in 2010E. We expect the company's ROE would improve from 28% in 2007 to 31.8% in 2008E, 33.9% in 2009E and 34.3% in 2010E, due to margin and asset turnover improvement, despite lowered financial leverage effects.

Fig 14 Hana Tour − summarised income statement

Dec 31 (Won bn)	2006	2007	2008E	2009E	2010E
Sales	**166.3**	**199.3**	**257.3**	**313.7**	**361.6**
Growth (%)	*49.8*	*19.8*	*29.1*	*21.9*	*15.3*
Package tour sales	111.9	139.1	191.6	240.1	282.7
Airline ticket sales	42.8	49.2	52.3	57.3	60.2
Others	11.6	11.0	13.5	16.2	18.6
Operating expenses	136.1	163.4	209.6	252.7	288.8
% of sales	*81.8*	*82.0*	*81.5*	*80.6*	*79.9*
Operating profit	**30.2**	**35.9**	**47.7**	**61.0**	**72.8**
Growth (%)	*70.1*	*18.8*	*32.8*	*27.8*	*19.5*
Operating profit margin (%)	*18.2*	*18.0*	*18.5*	*19.4*	*20.1*
EBITDA	**31.9**	**38.0**	**50.0**	**63.6**	**75.7**
Growth (%)	*68.0*	*18.9*	*31.8*	*27.1*	*19.2*
Net non-operating gain	3.7	4.0	3.2	7.6	12.2
Net interest income	1.7	5.1	6.4	8.5	11.0
Net f/x gain	0.3	-0.5	0.0	0.0	0.0
Net equity method gain	0.0	-2.6	-2.6	-0.9	1.2
Pre-tax profit	**33.9**	**39.9**	**50.9**	**68.6**	**85.0**
Income Taxes	10.6	13.0	15.3	20.6	25.5
Net profit	**23.3**	**26.9**	**35.7**	**48.0**	**59.5**
Growth (%)	*40.0*	*15.3*	*32.7*	*34.7*	*23.9*
Net margin (%)	*14.0*	*13.5*	*13.9*	*15.3*	*16.5*

Source: Company data, Macquarie Research, May 2008

3. How we differ from the consensus and the company's guidance

Our earnings forecasts are slightly below those of the market consensus by 4−5% because of lower operating profit margin assumptions. Our earnings forecast is significantly lower than the company's guidance by about 11%, due mainly to a higher corporate income tax rate assumption. Downside risk to our earnings forecasts appears to be limited.

Fig 15 Earnings forecast - Macquaire, consensus and the company guidance

	Macquarie		**Consensus**		**Variance (%)**		**Company guidance**	**Variance (%)**
	2008E	2009E	2008E	2009E	2008E	2009E	2008E	
Sales (Won bn)	257.3	313.7	254.6	304.1	1.1	3.1	270	-4.7
OP (Won bn)	47.7	61.0	48.4	63.1	-1.5	-3.4	50	-4.6
NP (Won bn)	35.7	48.0	37.5	50.1	-5.0	-4.1	40	-10.8
OP margin (%)	18.5	19.4	19.0	20.8			18.5	
Net margin (%)	13.9	15.3	14.7	16.5			14.8	

Source: Company data, Bloomberg consensus estimates, Macquarie Research, May 2008

4. Risks

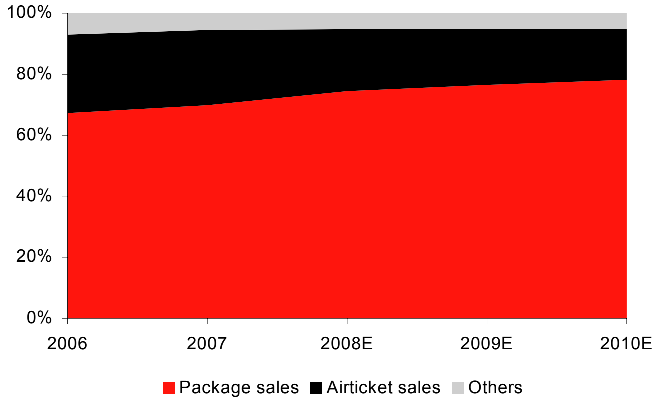
- **Misjudging demand for hard-block seats could lower profitability:** Hard-block seats refer to airline seats sold in a block at 10−30% discount with an upfront fee by airliners to travel agencies. Hard-block seat tickets cannot be refunded, which implies that travel agencies have to bear all the inventory risks. The leftover seats are sold at a discount to travellers, because the travel agencies will otherwise have to recognise the losses. Airliners usually sell hard-block seats during the peak season and the slow season as packages.

  Hana tour's 2H07 earnings was hit by leftover hard-block sales after a charter plane arranged by Hana Tour in Cambodia crashed.

  However, hard-block losses will be reduced from 2008 onwards, compared to 2007, as the company will continue with a smaller portion of hard-block seats than in 2007.

- **Short-term demand susceptible to unexpected accidents:** Any natural disaster (eg earthquake, flood or tsunami), epidemic (SARS or avian flu) or events such as terrorism would affect travel demand negatively, even if the impact is likely to be in the short term.
- **Drastic rises of airline ticket prices:** Airline ticket costs account for the highest portion of outbound package tour prices. A significant or drastic increase in the prices of airplane tickets − due to fuel surcharge hikes for instance − could dampen the demand for outbound travel.
- **Deterioration of domestic economy and weak Korean Won:** Although overseas travel demand is growing regardless of weaker consumption sentiment and the Won, events such as a sharp economic slowdown or a significant depreciation of the Won are likely to adversely affect outbound travel demand.

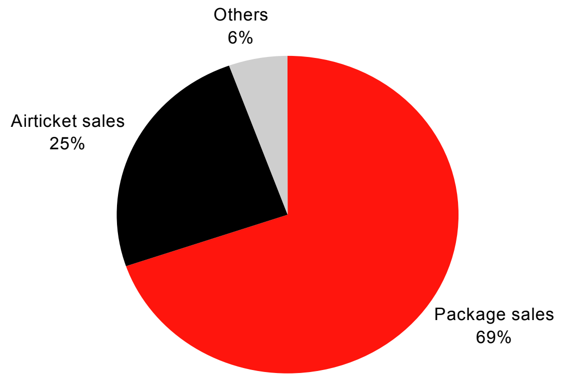
Fig 16 Hana Tour – sales breakdown over time



Note: Air-ticket sales include air-ticket sales embedded in package tours

Source: Company data, Macquarie Research, May 2008

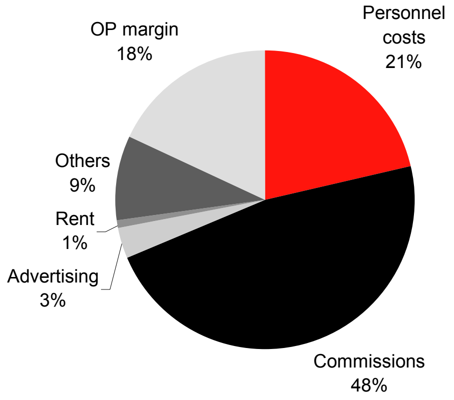
Fig 17 Hana Tour – sales breakdown, 2007



Note: Air-ticket sales include air-ticket sales embedded in package tours

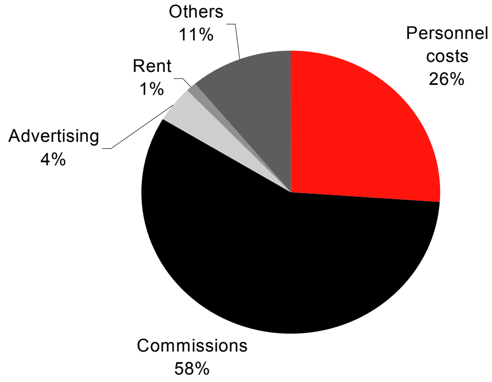
Source: Company data, Macquarie Research, May 2008

Fig 18 Hana Tour – cost breakdown, % of sales, 2007



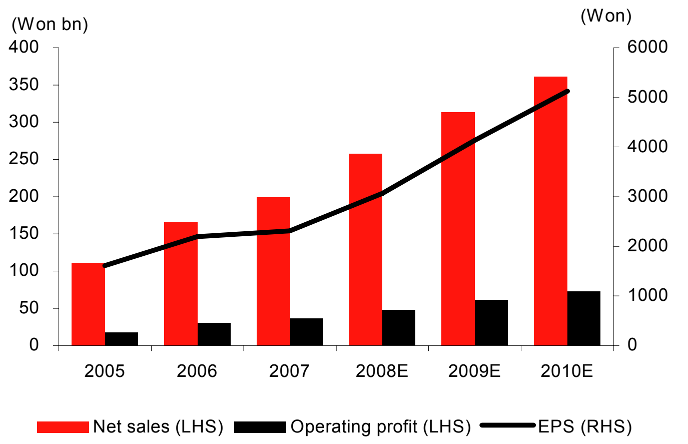
Source: Company data, Macquarie Research, April 2008

Fig 19 Hana Tour – cost breakdown, % of total operating costs, 2007



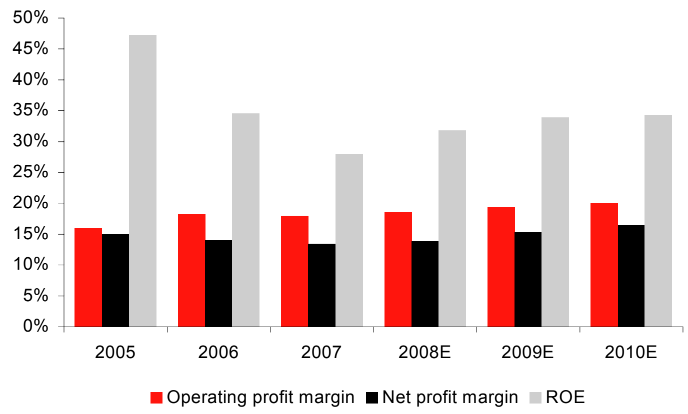
Source: Company data, Macquarie Research, April 2008

Fig 20 Sales, operating profit and EPS trend



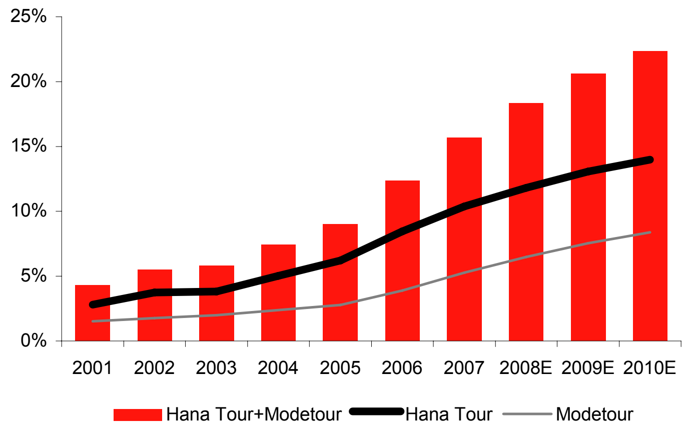
Source: Company data, Macquarie Research, May 2008

Fig 21 Hana Tour – profitability



Source: Company data, Macquarie Research, May 2008

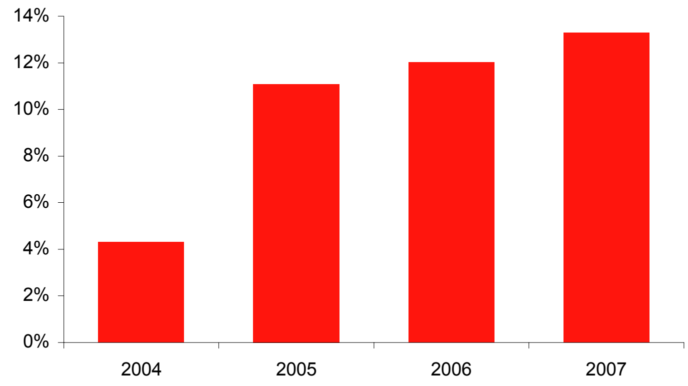
Fig 22 Hana Tour and Modetour – market share trend



Note: M/S out of total outbound travellers excluding flight attendants

Source: Company data, Macquarie Research, May 2008

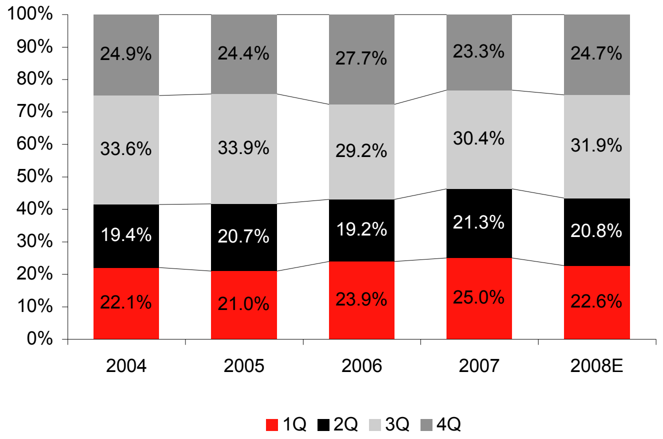
Fig 23 Hana Tour – online portion of customers



Note: Website opened in June, 2004

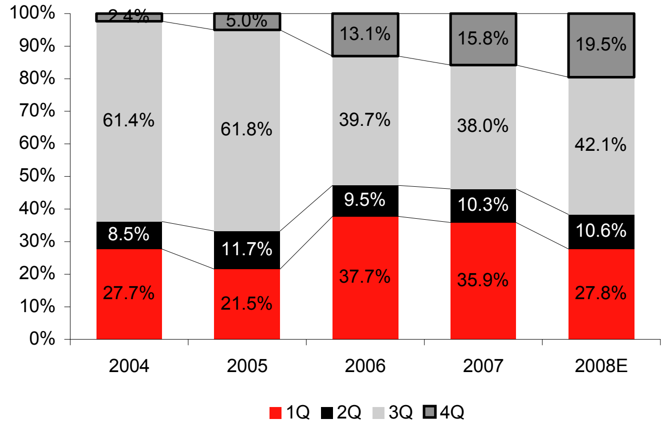
Source: Company data, Macquarie Research, May 2008

Fig 24 Hana Tour – quarterly contribution-revenue



Source: Company data, Macquarie Research, May 2008

Fig 25 Hana Tour – quarterly contribution to operating profit



Source: Company data, Macquarie Research, May 2008

Quantitative analysis

HANA TOUR SERVICES INC(P) (039130)

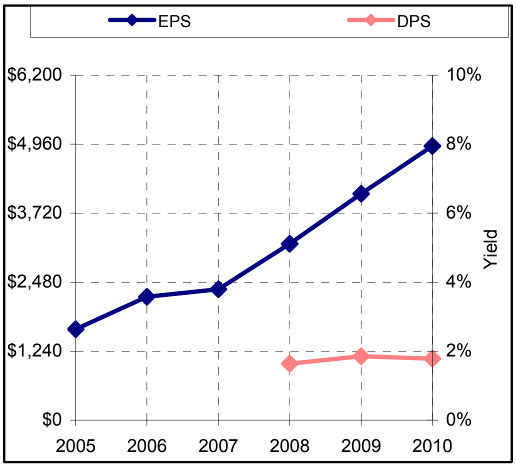
Price: $62,000.00; Market Cap: $720.2b; Sector: Consumer Services; Industry: Leisure & Tourism

Quant Scorecard

Factor	Score Raw	Score Std	Rank Mkt	Rank Sect	Rank Ind
Earn Rev	-0.7	-0.6	176	24	3
Composite Value	-0.4	-0.6	155	13	2
Rec'd	2.1	-0.3	149	22	1
Rec Revision	**-0.3**	**-1.6**	**212**	**26**	**2**
Earn. Certainty	**9%**	**0.9**	**35**	**12**	**1**
12 Mnth Mom	**-15%**	**-0.8**	**175**	**21**	**3**
1 Mnth Reversion	**22%**	**-1.4**	**204**	**26**	**3**
Overall			**185/222**	**13/28**	**2/3**

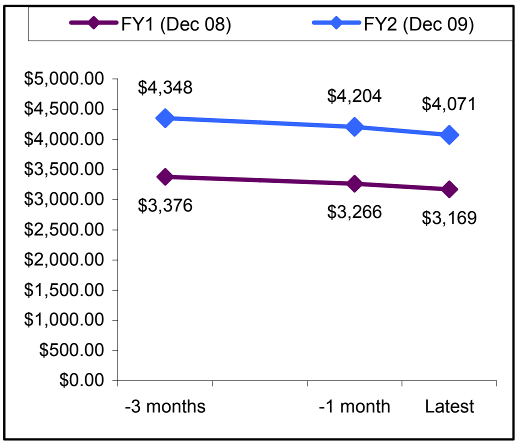
Source: Macquarie Research and Thomson Financial I/B/E/S

Historic & Forecast Valuation Data



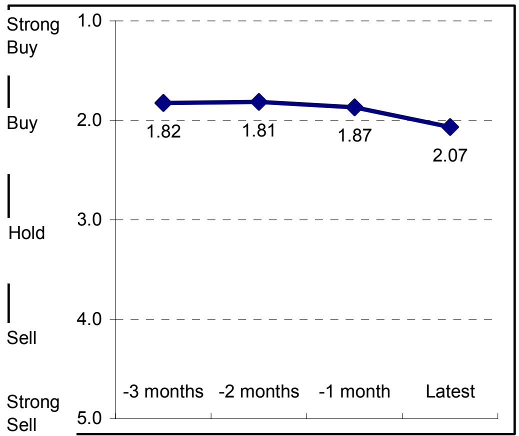
Source: Thomson Financial I/B/E/S

Forecast Earnings Revisions



Source: Thomson Financial I/B/E/S

Consensus Recommendation



Source: Thomson Financial I/B/E/S

The Good ...

Strong Forecast Earnings Certainty
Ranked 35 out of 222 stocks in market

Source: Macquarie Research and Thomson Financial I/B/E/S

And Bad ...

Very Poor Recommendation Revision
Ranked 212 out of 222 stocks in market

Very Poor 1 Month Reversion Potential
Ranked 26 out of 28 stocks in sector

Poor 12 Month Momentum
Ranked 175 out of 222 stocks in market

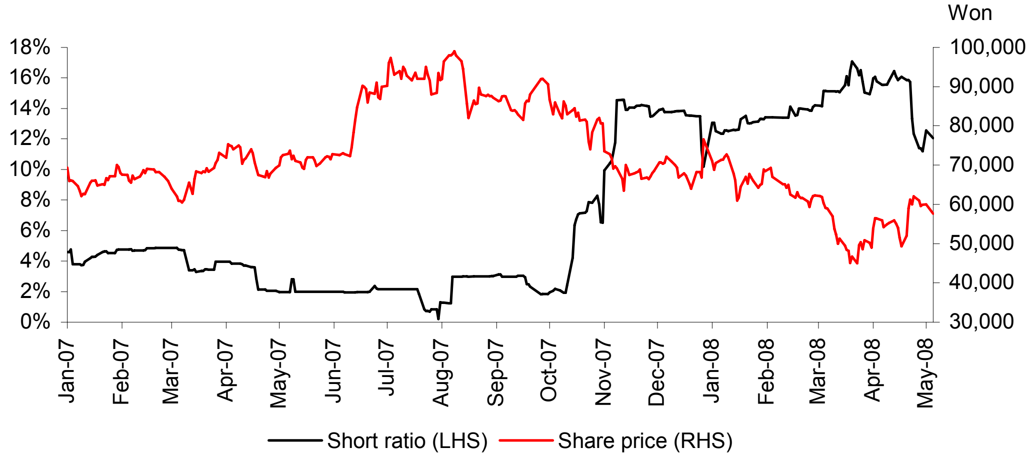
Source: Macquarie Research and Thomson Financial I/B/E/S

Hana Tour was ranked 185th out of 222 stocks in the Macquarie Alpha model. The weak Alpha score is due to very poor recommendation revision, very poor one-month reversion potential and poor 12-month momentum. Hana Tour had a high score only in forecast earnings certainty.

We anticipate that earnings momentum and recommendation revision would recover for the remainder of 2008, which we expect to lead to an upgrading of the Alpha score.

Stock lending analysis

Fig 26 Hana Tour – short ratio vs share price



Source: Macquarie Research, May 2008

According to Macquarie's ASD team, stock lending balance represents onshore short selling activity. Until October 2007, Hana Tour's stock lending activity was stagnant. However, with the slowdown in outbound travel and the company's earnings in 3Q/4Q 2007, stock lending position of Hana Tour surged to 13% from 3% within three months. In March, we believe additional negative news flow, such as a weakening Korean Won, air-ticket ticket sales commission cuts and higher fuel surcharges on airline ticket prices, also drove the short ratio even further to 17%. Recently, however, we think positive sentiment on Hana Tour and the outbound tourism industry have driven down the short ratio sharply. We view the recent drop in short ratio as a positive sign for the outlook of the Hana Tour share price.

short ratio = share balance of stock lending / free float

Hana Tour Services (039130 KQ, Outperform, Target price: Won83,000)

Quarterly Results		**4Q/07A**	**1Q/08E**	**2Q/08E**	**3Q/08E**
Revenue	**bn**	**46**	**58**	**54**	**82**
Gross Profit	**bn**	**46**	**58**	**54**	**82**
Cost of Goods Sold	bn	0	0	0	0
EBITDA	**bn**	**6**	**14**	**6**	**21**
Depreciation	bn	0	0	0	0
Amortisation of Goodwill	bn	0	0	0	0
Other Amortisation	bn	0	0	0	0
EBIT	**bn**	**6**	**13**	**5**	**20**
Net Interest Income	bn	1	1	2	2
Associates	bn	-2	-1	-1	-0
Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	-0	0	0	0
Other Pre-Tax Income	bn	0	-1	-0	0
Pre-Tax Profit	**bn**	**6**	**13**	**6**	**21**
Tax Expense	bn	-2	-4	-2	-6
Net Profit	**bn**	**3**	**9**	**4**	**15**
Minority Interests	bn	0	0	0	0
Reported Earnings	**bn**	**3**	**9**	**4**	**15**
Adjusted Earnings	**bn**	**3**	**9**	**4**	**15**
EPS (rep)		271.4	799.0	353.6	1,292
EPS (adj)		271.4	799.0	353.6	1,292
EPS Growth yoy (adj)	%	-12.9	-17.5	21.9	54.1
EBITDA Margin	%	13.6	23.7	10.5	25.2
EBIT Margin	%	12.2	22.8	9.4	24.5
Earnings Split	%	11.7	26.0	11.5	42.1
Revenue Growth	%	0.8	16.9	26.2	35.3
EBIT Growth	%	43.7	2.8	36.5	47.3

Profit & Loss		**2007A**	**2008E**	**2009E**	**2010E**
Revenue	**bn**	**199**	**257**	**314**	**362**
Gross Profit	**bn**	**199**	**257**	**314**	**362**
Cost of Goods Sold	bn	0	0	0	0
EBITDA	**bn**	**38**	**50**	**64**	**76**
Depreciation	bn	2	2	2	1
Amortisation of Goodwill	bn	0	0	0	0
Other Amortisation	bn	0	1	1	1
EBIT	**bn**	**36**	**48**	**61**	**73**
Net Interest Income	bn	5	6	9	11
Associates	bn	-3	-3	-1	1
Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	-0	0	0	0
Other Pre-Tax Income	bn	2	-1	0	0
Pre-Tax Profit	**bn**	**40**	**51**	**69**	**85**
Tax Expense	bn	-13	-15	-21	-25
Net Profit	**bn**	**27**	**36**	**48**	**60**
Minority Interests	bn	0	0	0	0
Reported Earnings	**bn**	**27**	**36**	**48**	**60**
Adjusted Earnings	**bn**	**27**	**36**	**48**	**60**
EPS (rep)		2,358	3,070	4,136	5,126
EPS (adj)		2,369	3,070	4,136	5,126
EPS Growth (adj)	%	6.1	29.6	34.7	23.9
PE (rep)	x	23.1	17.8	13.2	10.6
PE (adj)	x	23.0	17.8	13.2	10.6
Total DPS		900.0	1,250	1,700	2,100
Total Div Yield	%	1.7	2.3	3.1	3.9
Weighted Average Shares	m	11	12	12	12
Period End Shares	m	12	12	12	12

Profit and Loss Ratios		**2007A**	**2008E**	**2009E**	**2010E**
Revenue Growth	%	19.8	29.1	21.9	15.3
EBITDA Growth	%	18.9	31.8	27.1	19.2
EBIT Growth	%	18.8	32.8	27.8	19.5
Gross Profit Margin	%	100.0	100.0	100.0	100.0
EBITDA Margin	%	19.0	19.4	20.3	20.9
EBIT Margin	%	18.0	18.5	19.4	20.1
Net Profit Margin	%	13.5	13.9	15.3	16.5
Payout Ratio	%	38.0	40.7	41.1	41.0
EV/EBITDA	x	15.2	11.3	8.6	7.0
EV/EBIT	x	16.1	11.9	8.9	7.3
Balance Sheet Ratios					
ROE	%	28.0	31.8	33.9	34.3
ROA	%	19.5	24.2	26.9	28.2
ROIC	%	-215.2	894.8	586.2	403.2
Net Debt/Equity	%	-96.2	-94.2	-92.0	-89.6
Interest Cover	x	nmf	nmf	nmf	nmf
Price/Book	x	6.4	5.1	4.0	3.4
Book Value per Share		8,557.3	10,748.1	13,676.7	16,195.3

Cashflow Analysis		**2007A**	**2008E**	**2009E**	**2010E**
EBITDA	**bn**	**38**	**50**	**64**	**76**
Tax Paid	bn	-13	-15	-21	-25
Chgs in Working Cap	bn	-3	-6	-5	-5
Net Interest Paid	bn	5	6	9	11
Other	bn	12	-4	-3	-1
Operating Cashflow	**bn**	**39**	**31**	**43**	**55**
Acquisitions	bn	-5	3	1	-1
Capex	bn	-4	-2	-2	-2
Asset Sales	bn	0	0	0	0
Other	bn	-22	0	0	0
Investing Cashflow	**bn**	**-31**	**1**	**-1**	**-3**
Dividend (Ordinary)	bn	-9	-10	-14	-30
Equity Raised	bn	0	0	0	0
Debt Movements	bn	0	0	0	0
Other	bn	-24	0	0	0
Financing Cashflow	**bn**	**-33**	**-10**	**-14**	**-30**
Net Chg in Cash/Debt	**bn**	**-8**	**22**	**29**	**22**

Balance Sheet		**2007A**	**2008E**	**2009E**	**2010E**
Cash	bn	96	118	146	169
Receivables	bn	19	25	30	35
Inventories	bn	0	0	0	0
Investments	bn	1	1	1	1
Fixed Assets	bn	32	32	32	32
Intangibles	bn	0	0	0	0
Other Assets	bn	37	35	35	37
Total Assets	**bn**	**184**	**210**	**244**	**273**
Payables	bn	0	0	0	0
Short Term Debt	bn	0	0	0	0
Long Term Debt	bn	0	0	0	0
Provisions	bn	0	0	0	0
Other Liabilities	bn	85	85	85	85
Total Liabilities	**bn**	**85**	**85**	**85**	**85**
Shareholders' Funds	bn	130	155	189	219
Minority Interests	bn	0	0	0	0
Other	bn	-30	-30	-30	-30
Total S/H Equity	**bn**	**99**	**125**	**159**	**188**
Total Liab & S/H Funds	**bn**	**184**	**210**	**244**	**273**

All figures in Won unless noted.
Source: Macquarie Research, May 2008

Macquarie Research
Equities

MACQUARIE

KOREA

Modetour Network

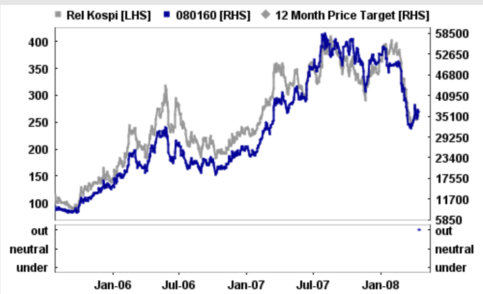
9 May 2008

080160 KQ		**Outperform**
Stock price as of 06 May 08	Won	33,350
12-month target	Won	50,000
Upside/downside	%	+49.9
Valuation	Won	50,000
- DCF (WACC 10.5%)		
GICS sector		
Market cap	Won m	280,140
30-day avg turnover	Won m	1,836.5
Market cap	US$m	278
Number shares on issue	m	8.40

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	bn	94.4	123.2	152.5	180.9
EBIT	bn	14.3	20.2	27.0	33.6
EBIT Growth	%	46.7	40.8	34.0	24.4
Reported profit	bn	11.4	16.5	22.2	27.6
Adjusted profit	bn	11.4	16.5	22.2	27.6
EPS rep	Won	1,353	1,966	2,638	3,291
EPS rep growth	%	6.8	45.3	34.2	24.7
EPS adj	Won	1,353	1,966	2,638	3,291
EPS adj growth	%	9.7	45.3	34.2	24.7
PE rep	x	24.6	17.0	12.6	10.1
PE adj	x	24.6	17.0	12.6	10.1
Total DPS	Won	290	430	600	800
Total div yield	%	0.9	1.3	1.8	2.4
ROA	%	17.0	19.3	22.3	24.1
ROE	%	21.5	25.5	27.4	27.9
EV/EBITDA	x	16.2	10.9	7.9	6.3
Net debt/equity	%	-105.5	-101.4	-98.1	-95.6
Price/book	x	4.9	3.9	3.1	2.6

080160 KQ rel Kospi performance, & rec history



Source: Datastream, Macquarie Research, April 2008 (all figures in Won unless noted)

Analyst

Heather Kang
822 3705 8677 heather.kang@macquarie.com

Don't ignore Modetour

Event

- We initiate coverage of Modetour Network (Modetour) with an Outperform rating and a target price of Won50,000, which represents 50% upside from the current share price.

Impact

- **Time to buy.** Modetour shares have fallen by 36% YTD, and 43% from its all-time peak of Won58,500 on 3 August 2007, we believe on concerns of a weaker Korean Won and slower growth in outbound tourism. Modetour has already raised its package tour prices, offsetting the weak Won-led demand slowdown and margin pressure, without any signs of negative effects on demand. May-June advance bookings are robust.
- **Market share gain to amplify growth momentum.** We forecast Korea's total outbound traffic to grow at 10% CAGR during 2007–10E. We expect Modetour to continuously gain market share from 5.3% in 2007 to 6.3% in 2008E, 7.3% in 2009E and 8.2% in 2010E, which will enable it to continue to outgrow the overall industry. We forecast Modetour's number of outbound travellers to grow at 28% CAGR during 2007–10E, following a 50% CAGR during 2004–07. We forecast the company's top-line, operating profit and EPS to grow at 24%, 33% and 35% CAGR from 2007–10E.
- **Following Hana Tour's suit.** Modetour has been successfully enhancing its brand image through aggressive marketing, adopting an employee stock option program to motivate its employees and investing in overseas affiliates to provide better-quality services. While this is similar to Hana Tour's strategy, we think it would be unlikely for Modetour to overtake Hana Tour, given that its market share is still half of Hana Tour's.

Earnings revision

- Initiation of coverage.

Price catalyst

- 12-month price target: Won50,000 based on a DCF methodology.
- Catalyst: Strong outbound travel traffic data, market share gains, margin expansion and the US VWP (visa waiver programme).

Action and recommendation

- **Still a high-growth stock with compelling valuation.** We think the recent sharp fall in the share price offers a good chance to accumulate the stock, given 1) ongoing structural growth momentum; 2) likely market consolidation; 3) the upcoming US VWP; and 4) attractive valuation in PEG terms. Our target translates into a 2009E PER of 19x, which we believe fully incorporates slower growth prospects compared to the past. (Modetour shares have historically traded at an average PER of 21x and a peak PER of 34x since its listing). Outperform with a target price of Won50,000.

Outperform with a target price of Won50,000

We initiate coverage on Modetour with an Outperform rating and a target price of Won50,000, which represents 50% upside from the current share price. We have used a DCF methodology to value Modetour. Applying a 10.5% WACC (cost of equity of 10.5%; beta of 0.9, risk premium of 5.0%; risk-free rate of 6.0%; debt-to-equity ratio of 0%; and effective corporate tax rate of 27.5%) and a 3% terminal growth rate, we have derived a fair value of Won49,878/sh.

Fig 1 Modetour − DCF valuation

(Won bn)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
NOPLAT	14.6	19.6	24.4	28.3	32.0	35.9	40.1	44.3	48.4	52.5
Depr. + Amortisation	0.9	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Change in Net WC	-2.9	-3.0	-2.9	-2.8	-2.5	-2.9	-3.2	-3.6	-4.0	-4.3
Capex	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Free Cash Flow	11.3	16.4	21.3	25.4	29.4	33.1	36.8	40.6	44.4	48.2
PV of FCF	11.3	14.8	17.4	18.9	19.7	20.1	20.2	20.2	20.0	19.6
Sum of FCF's PV	182.2									
PV of TV	269.3									
Enterprise Value	451.6									
Other Assets	2.7									
- Net Debt (net cash)	35.3									
Equity Value	419.0									
No of shares	8,400									
Value per share (Won)	**49,878**									
WACC	10.5%									
Cost of Equity (CoE)	10.5%									
Beta	0.9									
Market risk premium	5.0%									
Risk Free Rate (Rf)	6.0%									
Terminal Value										
FCF n+1	49.6									
WACC	10.5%									
Terminal growth	3.0%									
TV	661.5									
PV of TV	269.3									

Source: Macquarie Research, May 2008

Fig 2 Modetour − sensitivity of DCF value

		Terminal Growth				
		2.0%	3.0%	4.0%	5.0%	6.0%
WACC	9.5%	57,792	64,644	74,237	88,627	112,610
	10.0%	49,306	54,084	60,453	69,370	82,746
	10.5%	45,831	**49,878**	55,170	62,386	72,810
	11.0%	37,546	40,120	43,336	47,472	52,987
	11.5%	33,319	35,280	37,677	40,673	44,525

Source: Macquarie Research, May 2008

Our DCF-based target price of Won50,000 translates into a 25.4x 2008E PER and a 19.0x 2009E PER. We believe that 2009E PER of 19x is achievable, given that Modetour shares have historically traded at an average 12-month forward PER of 21x and peak PER of 34x since its listing on July 2005.

Fig 3 Modetour - valuation at target price of Won50,000

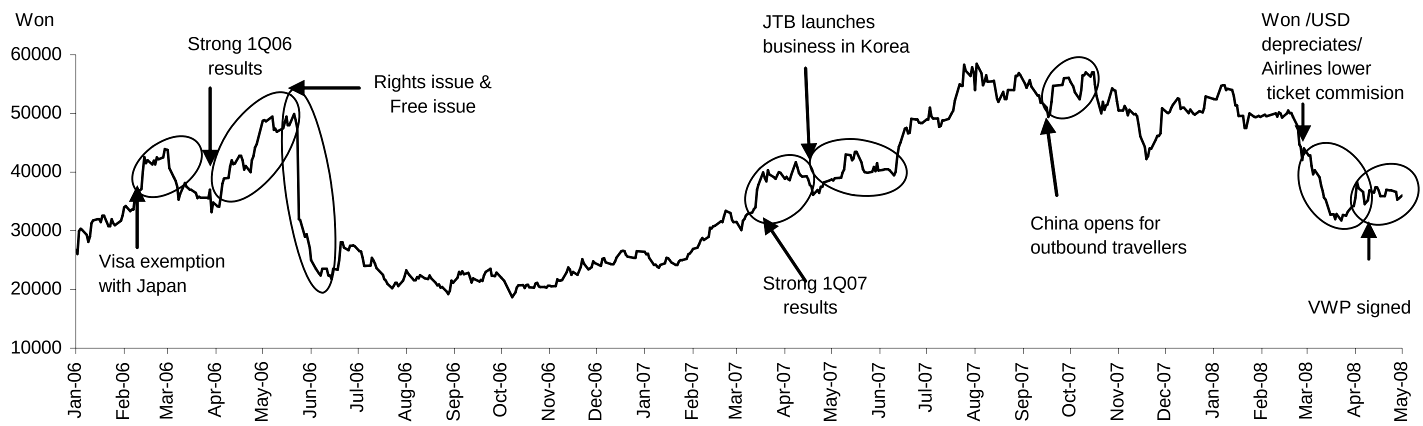
Target price (Won)	**50,000**		
Upside potential (%)	49.9		
@ target price	**2008E**	**2009E**	**2010E**
PER (x)	25.4	**19.0**	15.2
EPS growth (%)	45.3	34.2	24.7
PEG (x)	0.6	0.6	0.6
P/BV (x)	5.9	4.7	3.9
ROE (%)	25.5	27.4	27.9

Source: Macquarie Research, May 2008

Time to buy

Modetour shares fell by 36% YTD, and 43% from its all-time peak of Won58,500 on 3 August 2007, on concerns of weaker Korean Won and slower growth of outbound tourism. Modetour has already raised its package tour prices, offsetting the weak Won-led demand slowdown and margin pressure. May-June advance bookings are robust, despite the weak Won and raised package tour prices.

Fig 4 Modetour - share price with key events

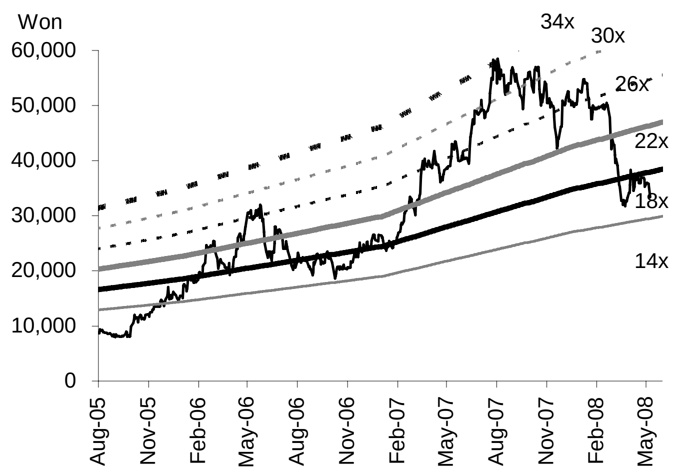


Source: QuantiWise, Company data, Maeil Business News, Macquarie Research, May 2008

Significantly undervalued by a PEG measure

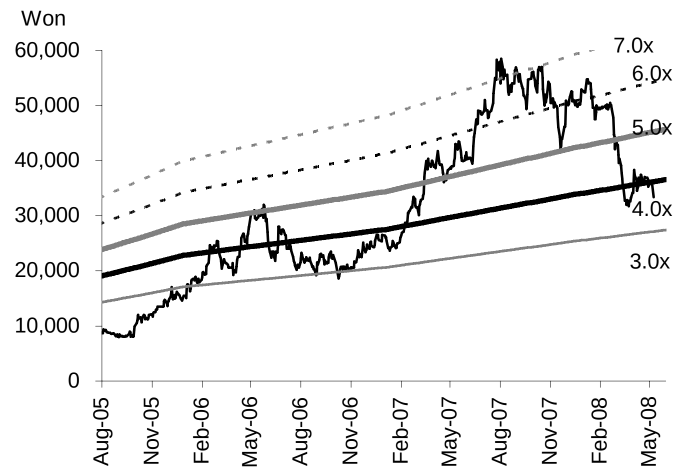
Modetour shares are currently trading at 17x 2008E PER and 12.6x 2009 PER, with the expected EPS growth of 45.3% in 2008E and 34.2% in 2009E. Also, the shares are trading at 3.9x 2008E P/BV and 3.1x 2009E P/BV, with forecast ROE of 25.5% in 2008E and 27.4% in 2009E.

Fig 5 Modetour − 12-month forward PER



Source: Macquarie Research, May 2008

Fig 6 Modetour −12-month forward P/BV



Source: Macquarie Research, May 2008

Comparison analysis

Among the cheapest by a PEG measure

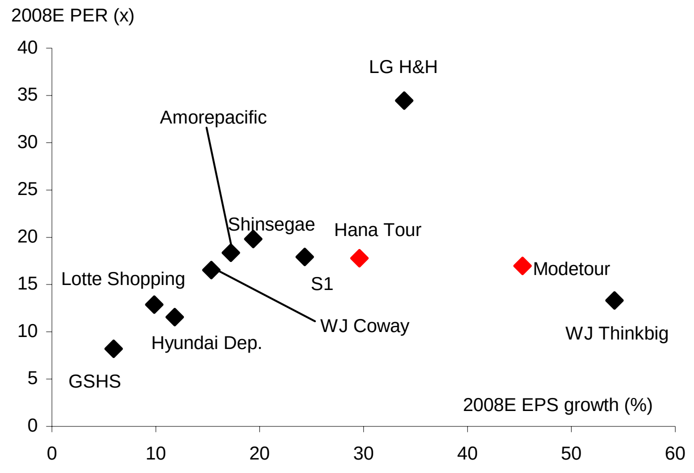
Modetour shares trade at 2008E and 2009E PEG of 0.4x each. On PEG terms, Modetour shares are significantly undervalued compared to other consumer and consumer service stocks in Korea. The average PEG of the selected Korean consumer stocks is 0.9x in 2008E and 0.8x in 2009E, based on Macquarie forecasts.

Fig 7 Korean consumer companies

Company		Hana Tour	Modetour	Shinsegae	Lotte Shopping	Hyundai Dep.	Amore pacific	LG H&H	GSHS	WJ Thinkbig	S1 Corp.	WJ Coway	Binggrae
Code		039130	080160	004170	023530	069960	090430	051900	028150	095720	012750	021240	005180
Recommendation		OP	OP	OP	OP	OP	OP	OP	OP	OP	OP	OP	OP
Current price (Won)		54,500	33,350	650,000	365,000	100,000	611,000	217,000	66,100	26,800	63,600	33,100	38,800
Target price (Won)		83,000	50,000	740,000	375,000	118,000	760,000	240,000	75,000	34,000	70,000	43,000	50,000
Upside (%)		52.3	49.9	17.8	11.6	13.5	34.5	14.8	18.3	41.7	14.8	44.3	41.4
Market cap (Won bn)		633.1	280.1	11,844.4	9,758.6	2,359.3	3,302.9	3,390.2	416.1	591.8	2,318.0	2,218.1	348.2
PER (x)	2008E	17.8	17.0	19.8	12.9	11.6	18.4	34.4	8.2	13.3	17.9	16.5	9.2
	2009E	13.2	12.6	17.5	11.7	10.9	15.6	25.1	7.4	10.6	15.9	13.3	7.5
EPS growth (%)	2008E	29.6	45.3	19.4	9.8	11.8	17.2	33.9	5.9	54.1	24.3	15.3	8.5
	2009E	34.7	34.2	13.2	9.7	6.6	17.4	37.2	11.1	25.5	12.6	24.1	22.3
PEG	2008E	0.6	0.4	1.0	1.3	1.0	1.1	1.0	1.4	0.2	0.7	1.1	1.1
	2009E	0.4	0.4	1.3	1.2	1.6	0.9	0.7	0.7	0.4	1.3	0.6	0.3
P/BV (x)	2008E	5.1	3.9	3.0	1.1	1.6	3.5	8.0	1.1	2.9	4.1	3.7	1.2
	2009E	4.0	3.1	2.6	1.0	1.4	3.0	6.4	1.0	2.5	3.5	3.2	1.1
ROE (%)	2008E	31.8	25.5	16.6	8.9	14.4	20.6	25.4	14.2	23.7	24.6	23.7	14.1
	2009E	33.9	27.4	16.0	8.9	13.6	20.5	28.3	14.4	25.2	23.5	25.4	15.4
Sales growth (%)	2008E	29.1	30.6	11.8	7.9	3.1	7.9	11.7	5.6	12.6	10.5	8.9	5.1
	2009E	21.9	23.8	8.1	8.7	3.0	7.5	9.9	4.5	6.4	3.4	7.7	5.9

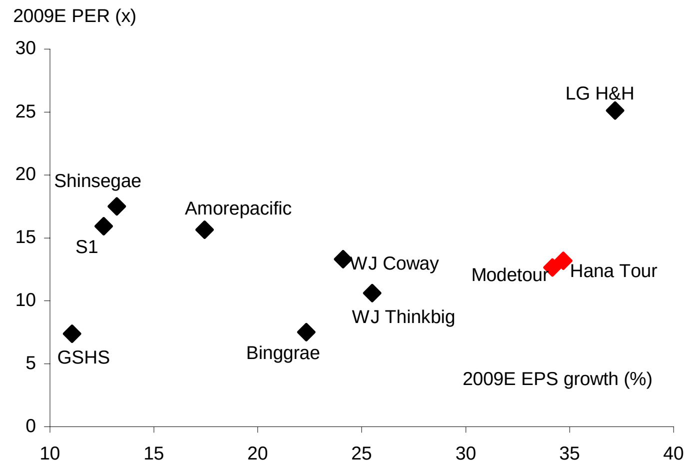
Source: Macquarie Research, May 2008

Fig 8 Korean consumer companies – 2008E PER vs EPS growth



Source: Macquarie Research, May 2008

Fig 9 Korean consumer companies – 2009E PER vs EPS growth



Source: Macquarie Research, May 2008

Peer comparison

Modetour seems to have more stable earnings growth prospects and superior ROEs compared with regional peers. We think the premium valuation to regional peers is justified. However, Modetour shares are trading at a significant discount compared to regional peers, which we believe is ungrounded.

Fig 10 Tour companies − comparable analysis

		Hana Tour	Modetour Networks	CTRIP.COM	eLong.Inc	China CYTS Tours	China Travel Intl.	Lijiang Yulong Tourism Co.
Code		039130 KQ	080160 KQ	CTRP US	LONG US	600138CH	308 HK	002033 CH
Currency		Won	Won	US$	US$	CNY	HKD	CNY
Price		54,500	33,350	66.8	9.9	27.2	3.5	19.8
Market cap (bn)		633.1	280.1	4.4	0.2	8.7	19.9	2.0
Fiscal YE		Dec	Dec	Dec	Dec	Dec	Dec	Dec
P/E (x)	2008E	17.8	17.0	48.6	127.7	35.7	22.3	28.4
	2009E	13.2	12.6	35.2	43.3	26.3	22.0	21.4
	2010E	10.6	10.1	27.2	n.a.	n.a.	21.9	17.8
EPS growth (%), yoy	2008E	29.6	45.3	-71.8	-118.8	49.5	86.0	20.3
	2009E	34.7	34.2	38.2	195.0	35.6	1.1	32.7
	2010E	23.9	24.7	29.4	n.a.	n.a.	0.7	20.0
P/BV (x)	2008E	5.1	3.9	16.2	n.a.	4.6	1.7	4.6
	2009E	4.0	3.1	11.5	n.a.	n.a.	1.6	4.1
	2010E	3.4	2.6	8.9	n.a.	n.a.	1.6	3.5
ROE (%)	2008E	31.8	25.5	33.3	n.a.	12.8	7.7	16.2
	2009E	33.9	27.4	32.7	n.a.	n.a.	7.5	19.0
	2010E	34.3	27.9	32.7	n.a.	n.a.	7.3	19.9
Sales growth (%)	2008E	29.1	30.6	-78.8	-84.2	23.8	15.6	15.0
	2009E	21.9	23.8	42.5	20.4	11.0	14.8	31.7
	2010E	15.3	18.7	40.8	n.a.	n.a.	9.1	12.5
OP margin (%)	2008E	18.5	16.4	32.8	n.a.	11.5	16.5	52.1
	2009E	19.4	17.7	35.3	n.a.	12.7	18.7	48.9
	2010E	20.1	18.6	33.3	n.a.	n.a.	20.9	52.4

Source: FactSet, Macquarie Research, May 2008

Earnings forecast

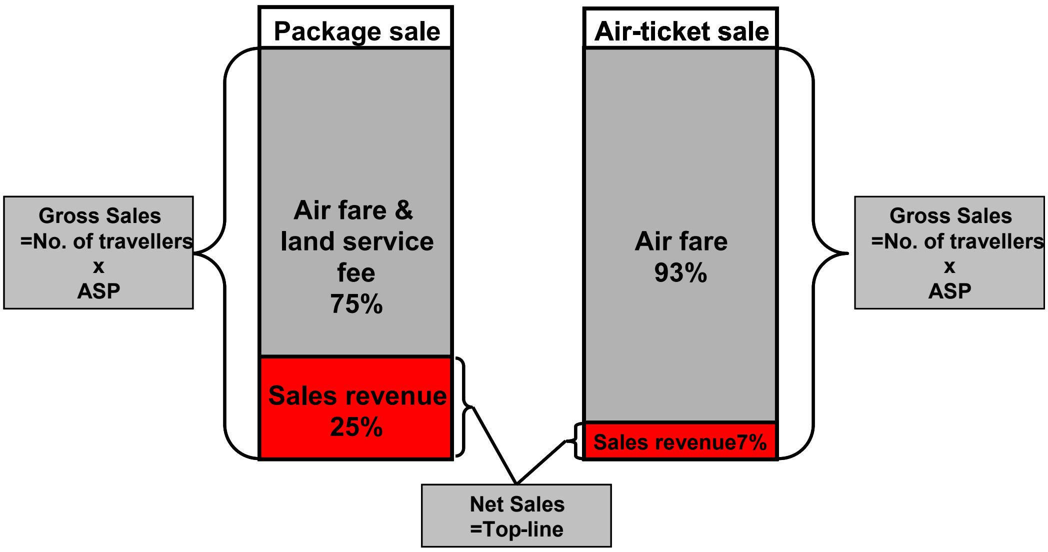
1. Key assumptions – faster-than-industry traffic growth with market share gain

We forecast Korea's number of total outbound travellers to grow 11.8% in 2008E, 9.9% in 2009E and 9.1% in 2010E, following previous 15–16% annual growth. We assume that Modetour will continue to gain market share from smaller retail agents, based on its large-scale purchasing power, expanded distribution network and strong brand equity. Our assumption for Modetour's market share is 6.3% in 2008E, 7.3% in 2009E and 8.2% in 2010E (up from 5.3% in 2007).

Long-term structural changes, such as greater leisure time, changing lifestyles and demographics, and gradually rising personal income, should favour long-term sustained growth of the total outbound travel industry. We believe the upcoming implementation of US VWP and an increasing supply of airline seats will boost outbound travel demand as well.

The number of outbound travellers is one of the key factors for Modetour's gross sales. The ASP of package tours and airline tickets is another key factor. We forecast the number of package tour travellers through Modetour to grow by 33% in 2008E, 28% in 2009E and 22% in 2010E, following 34–60% annual growth in 2005–07. We forecast the ASP for package tours to increase 2% in 2008E and 2009E and 1% in 2010E mainly due to reduced losses from unsold hard-block seats and increases in airline ticket and package tour prices from 2008E.

Fig 11 Modetour − profit sharing scheme (gross sales and net sales)



Source: Company data, Macquarie Research, May 2008

Fig 12 Modetour − key assumptions for no. of travellers

	2005	2006	2007	2008E	2009E	2010E
No. of total outbound travellers ('000)	9,209	10,571	12,295	13,751	15,118	16,487
YoY growth (%)	*15*	*14.8*	*16.3*	*11.8*	*9.9*	*9.1*
No. of travellers ('000) - Modetour	257	412	649	865	1,110	1,350
YoY growth (%)	*34*	*60.1*	*57.8*	*33.2*	*28.3*	*21.7*
Modetour M/S (%)	2.8	3.9	5.3	6.3	7.3	8.2

Source: KTO, KATA, company data, Macquarie Research, May 2008

Fig 13 Modetour − key sales assumptions

	2005	2006	2007	2008E	2009E	2010E
Gross sales (Won bn)	**350**	**515**	**721**	**927**	**1,164**	**1,392**
YoY growth (%)	*21*	*47*	*40*	*29*	*26*	*20*
Package tour gross sales (Won bn)	210	352	535	725	949	1,166
YoY growth (%)	*38*	*68*	*52*	*35*	*31*	*23*
No. of travellers ('000)	252	412	649	865	1,110	1,350
YoY growth (%)	*41*	*63*	*58*	*33*	*28*	*22*
ASP (Won1,000)	832	854	824	838	855	864
YoY growth (%)	*-2*	*3*	*-4*	*2*	*2*	*1*
Airline ticket gross sales (Won bn)	140	163	186	202	216	227
YoY growth (%)	*3*	*16*	*14*	*9*	*7*	*5*
No. of travellers ('000)	212	242	277	290	301	310
YoY growth (%)	*1*	*14*	*15*	*5*	*4*	*3*
ASP (Won1,000)	661	674	670	697	716	730
YoY growth (%)	*2*	*2*	*-1*	*4*	*3*	*2*
Net sales (Won bn)	**39**	**66**	**94**	**123**	**152**	**181**
YoY growth (%)	*23*	*71*	*42*	*31*	*24*	*19*
Package tour net sales (Won bn)	19	40	60	86	113	139
YoY growth (%)	*36*	*106*	*50*	*43*	*32*	*23*
Airline ticket net sales (Won bn)	18	25	31	33	34	36
YoY growth (%)	*8*	*37*	*25*	*6*	*4*	*5*
Others (Won bn)	2	2	4	5	6	7
YoY growth (%)	*93*	*20*	*92*	*34*	*20*	*15*

Source: Company data, Macquarie Research, May 2008

2. Earnings outlook – growth prospects still outstanding

We forecast Modetour's top-line (net sales) to grow 31% in 2008E, 24% in 2010E and 19% in 2010E on the back of strong growth in outbound travellers and market share gains.

Modetour's operating profit margin improved from 8.2% in 2005 to 15.2% in 2007 thanks mainly to increasing package tour sales (with higher margins than simple airline ticket sales), growing economies of scale and operational leverage effects. We expect its operating profit margin to widen to 16.4% in 2008E (vs company guidance of 17.2% in 2008E), 17.7% in 2009 and 18.6% in 2010E based on growing operational leverage effects and reduced hard-block portion (reduced losses from unsold hard-block seats) from 2008E.

We forecast Modetour's net profit to grow 45% in 2008E, 34% in 2009E and 25% in 2010E. The company's ROE is estimated to improve due to margin and asset turnover improvement from 21.5% in 2007 to 25.5% in 2008E, 27.4% in 2009E and 27.9% in 2010E.

Fig 14 Modetour − summarised income statement

Dec 31, (Won bn)	2005	2006	2007	2008E	2009E	2010E
Sales	**38.9**	**66.4**	**94.4**	**123.2**	**152.5**	**180.9**
Growth (%)	*22.9*	*70.8*	*42.1*	*30.6*	*23.8*	*18.7*
Package tour sales	19.4	39.9	60.0	85.9	112.9	138.8
Airline ticket sales	18.0	24.6	30.7	32.5	33.8	35.5
Others	1.6	1.9	3.6	4.8	5.8	6.6
Operating expenses	35.7	56.6	80.0	103.1	125.5	147.3
% of sales	*91.8*	*85.3*	*84.8*	*83.6*	*82.3*	*81.4*
Operating Profit	**3.2**	**9.8**	**14.3**	**20.2**	**27.0**	**33.6**
Growth (%)	*6.9*	*204.9*	*46.7*	*40.8*	*34.0*	*24.4*
Operating profit margin (%)	*8.2*	*14.7*	*15.2*	*16.4*	*17.7*	*18.6*
EBITDA	**3.5**	**10.2**	**15.0**	**21.0**	**28.0**	**34.7**
Growth (%)	*8.7*	*190.1*	*47.4*	*40.3*	*33.2*	*23.7*
Net non-operating gain	0.9	1.7	1.6	2.8	3.6	4.5
Net interest income	0.2	1.3	2.3	3.0	3.5	4.0
Net forex gain	0.0	0.1	0.0	0.0	0.0	0.0
Net equity method gain	0.0	0.0	-1.5	-0.9	-0.4	0.0
Pre-tax profit	**4.1**	**11.4**	**15.9**	**22.9**	**30.6**	**38.1**
Income Taxes	1.1	3.3	4.5	6.4	8.4	10.5
Net Profit	**2.9**	**8.2**	**11.4**	**16.5**	**22.2**	**27.6**
Growth (%)	*2.5*	*178.9*	*39.1*	*45.3*	*34.2*	*24.7*
Net profit margin (%)	*7.5*	*12.3*	*12.0*	*13.4*	*14.5*	*15.3*

Source: Company data, Macquarie Research, May 2008

3. How we differ from consensus and company guidance

Our earnings forecasts are above market consensus by 8% for 2008E and 14% for 2009E, mainly because of higher operating profit margin assumptions (in view of increasing package tour sales, growing economies of scale, operational leverage effects). However, our earnings forecasts are lower than company guidance by 12% for 2008E.

We think lower hard-block losses in 2008E compared to the past will contribute in margin expansion. Also, Modetour's increasing sales of package tours (with higher margins), economies of scale and operational leverage will expand its operating profit margin higher.

Fig 15 Modetour − earnings forecast: Macquarie, consensus and company guidance

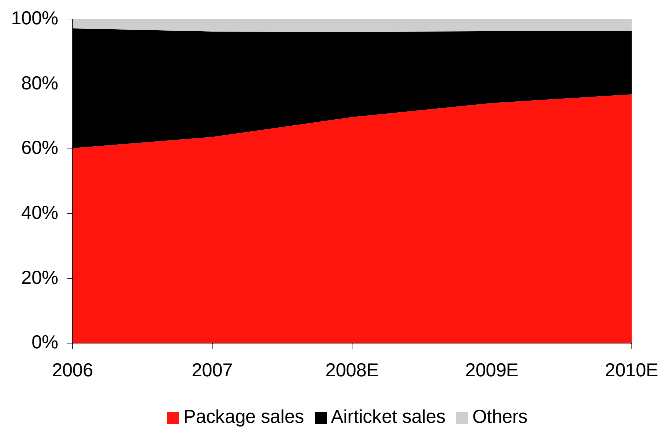
	Macquarie		Consensus		Variance (%)		Co guidance	Variance (%)
	2008E	2009E	2008E	2009E	2008E	2009E	2008E	
Sales (Won bn)	123.2	152.5	120.3	151.2	2.4	0.9	134	-8.0
OP (Won bn)	20.2	27.0	18.7	24.4	7.7	10.7	23	-12.3
NP (Won bn)	16.5	22.2	15.3	19.4	8.1	14.0	n.a.	n.a.
OP margin (%)	16.4	17.7	15.6	16.1			17.2	
Net margin (%)	13.4	14.5	12.7	12.9			n.a.	n.a.

Source: Company data, Bloomberg estimates, Macquarie Research, May 2008

4. Risks

- **Misjudging demand for hard-block seats could lower profitability.** Hard-block seats refer to airline seats that airliners sell to travel agencies in a block at a 10–30% discount with an upfront fee. Hard-block seats are not subject to refunds, implying travel agencies have to bear all the inventory risks. Leftover seats are sold at a discount to travellers, otherwise the travel agencies have to recognise the losses. Airliners usually sell hard block seats for peak season and slow season as packages. Hard-block losses will be reduced from 2008 compared to 2007, as Modetour is and will continue to have lower hard-block seat portions compared to 2007.
- **Short-term demand susceptible to unexpected accidents.** Despite the impact being likely only in the short term, natural disasters (such as earthquake, flood, tsunami), epidemics (such as SARS, avian flu) as well as terrorism will affect travel demand negatively.
- **Drastic rises in airline ticket prices.** Airline ticket costs account for the highest portion of outbound package tour prices. A significant and drastic price increase in airline tickets, for instance, due to fuel surcharge hikes, could dampen demand for outbound travel.
- **Deterioration of domestic economy and weak Korean Won.** Although overseas travel demand is growing regardless of weaker consumption sentiment and the weaker Korean Won, a deep economic slowdown and significant depreciation of the Won are likely to adversely affect outbound travel demand.

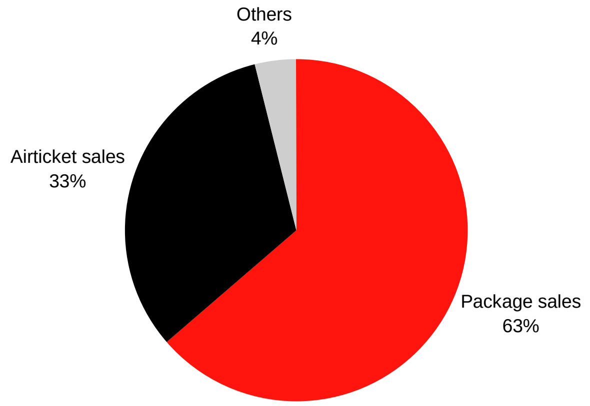
Fig 16 Modetour – sales breakdown over time



Note: Airticket sales include airticket embedded in package tour sales

Source: Company data, Macquarie Research, May 2008

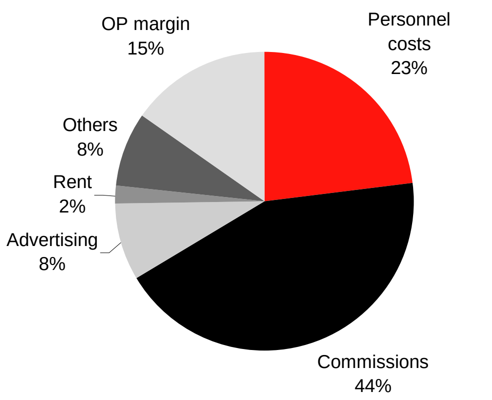
Fig 17 Modetour – sales breakdown, 2007



Note: Airticket sales include airticket embedded in package tour sales

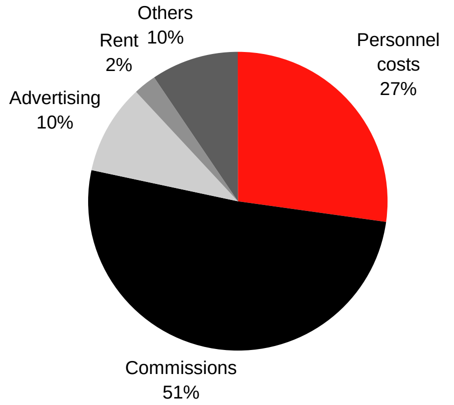
Source: Company data, Macquarie Research, May 2008

Fig 18 Modetour - cost breakdown, % of sales, 2007



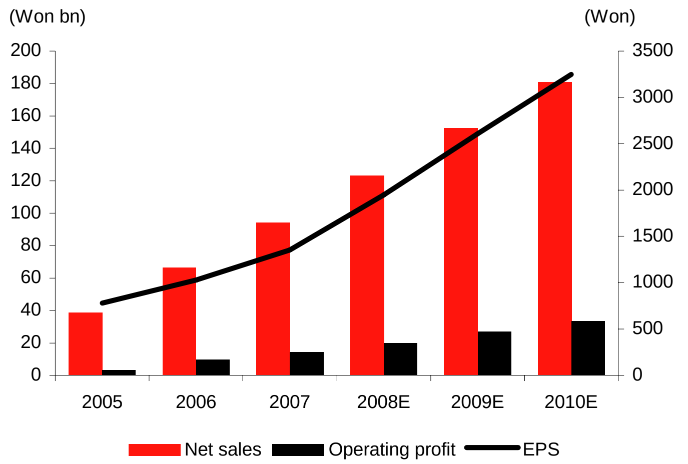
Source: Company data, Macquarie Research, May 2008

Fig 19 Modetour - cost breakdown, % of total OP, 2007



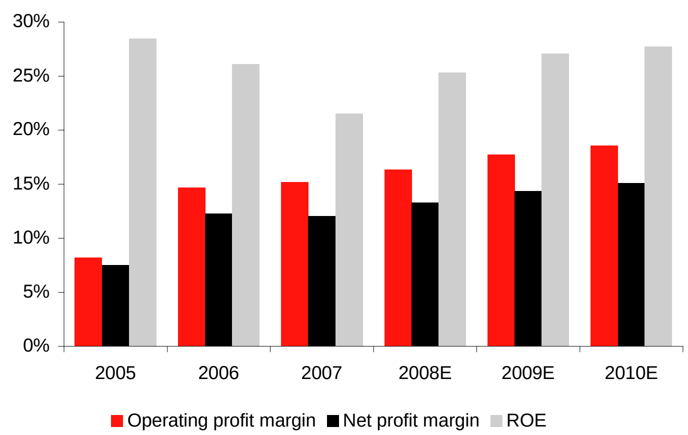
Source: Company data, Macquarie Research, May 2008

Fig 20 Modetour - sales, operating profit and EPS trend



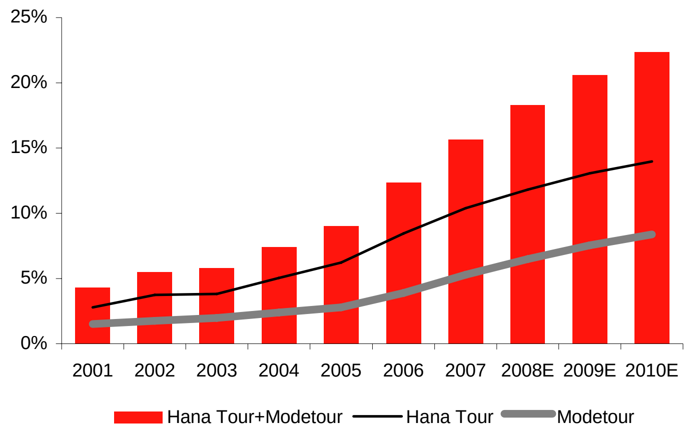
Source: Company data, Macquarie Research, May 2008

Fig 21 Modetour - profitability



Source: Company data, Macquarie Research, May 2008

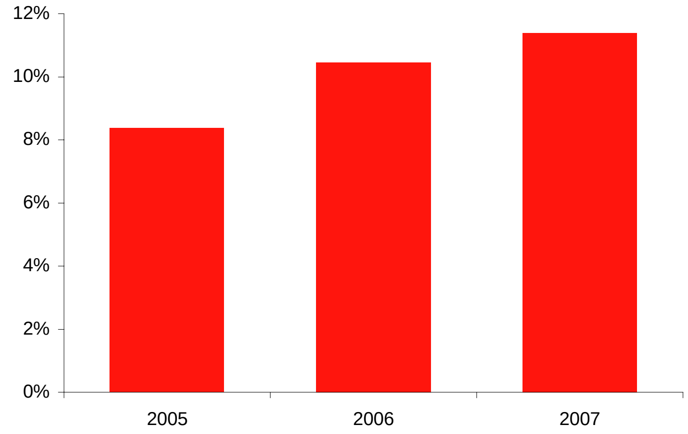
Fig 22 Hana Tour and Modetour market share trend



Note: M/S out of total outbound travellers excluding flight attendants

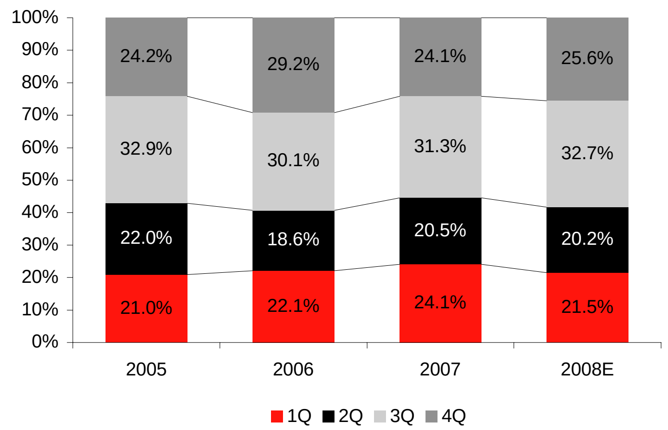
Source: Company data, Macquarie Research, May 2008

Fig 23 Modetour - online portion of customers



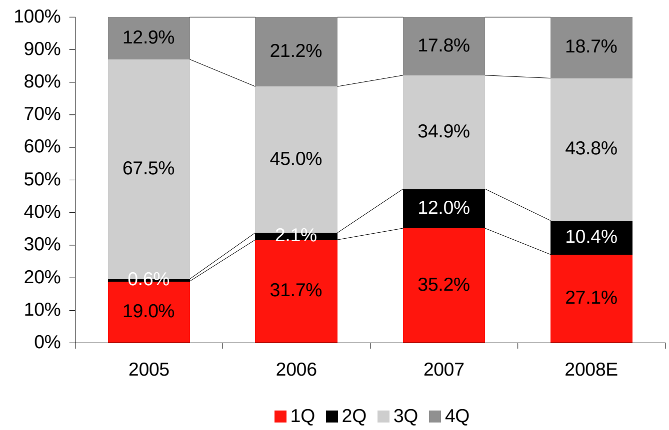
Source: Company data, Macquarie Research, May 2008

Fig 24 Modetour - quarterly contribution: revenue



Source: Company data, Macquarie Research, May 2008

Fig 25 Modetour - quarterly contribution: OP



Source: Company data, Macquarie Research, May 2008

Quantitative analysis

MODETOUR NETWORK INC (P) (080160)

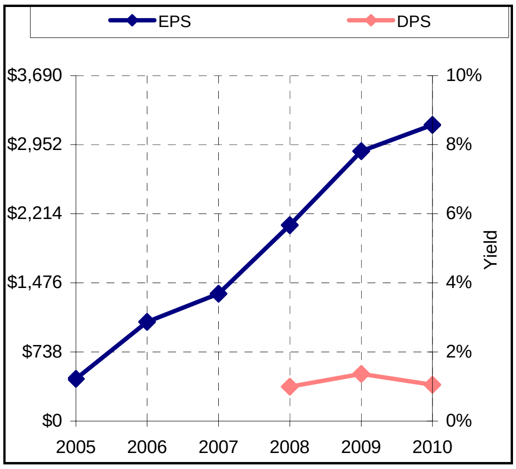
Price: $36,900.00; Market Cap: $310.0b; Sector: Transport & Utilities; Industry: Tra Multi-Industry

Quant Scorecard

Factor	Score Raw	Score Std	Rank Mkt	Rank Sect	Rank Ind
Earn Rev	-0.9	-0.8	193	9	1
Composite Value	-0.4	-0.5	152	8	1
Rec'd	**2.3**	**-1.0**	**191**	**8**	**1**
Rec Revision	**-0.7**	**-4.8**	**222**	**12**	**1**
Earn. Certainty	17%	-0.1	148	3	1
12 Mnth Mom	-8%	-0.6	153	9	1
1 Mnth Reversion	13%	-0.6	166	9	1
Overall			**212/222**	**9/12**	**1/1**

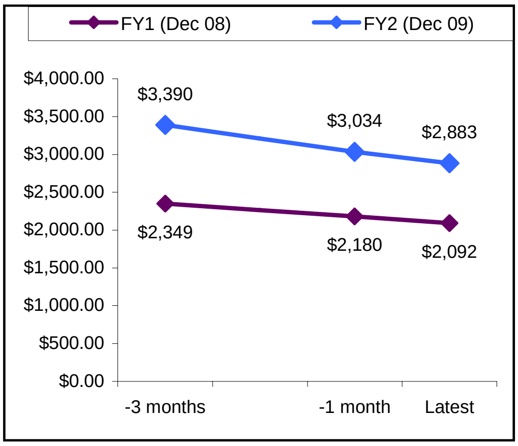
Source: Macquarie Research and Thomson Financial I/B/E/S

Historic & Forecast Valuation Data



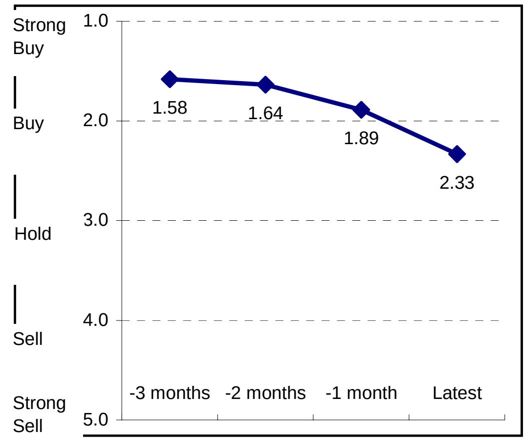
Source: Thomson Financial I/B/E/S

Forecast Earnings Revisions



Source: Thomson Financial I/B/E/S

Consensus Recommendation



Source: Thomson Financial I/B/E/S

The Good …

Source: Macquarie Research and Thomson Financial I/B/E/S

And Bad …

Extremely Poor Recommendation Revision
Ranked 12 out of 12 stocks in sector

Very Poor Consensus Recommendation
Ranked 191 out of 222 stocks in market

Poor Earnings Revisions
Ranked 193 out of 222 stocks in market

Poor 1 Month Reversion Potential
Ranked 9 out of 12 stocks in sector

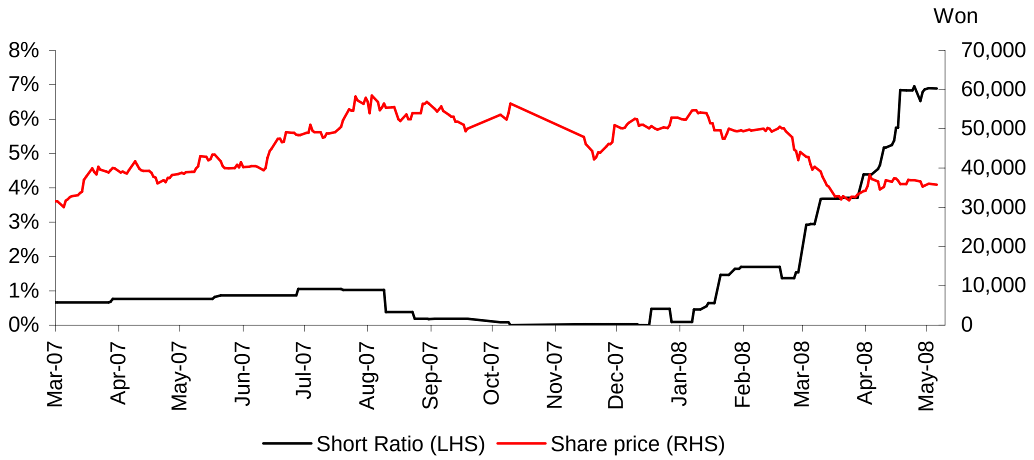
Source: Macquarie Research and Thomson Financial I/B/E/S

Modetour Networks was ranked 212th out of 222 stocks in the Macquarie Alpha model. The weak Alpha score is due to extremely poor recommendation revisions, very poor consensus recommendations, poor earnings revisions and poor 12-month momentum. There was no single category where Modetour was ranked highly in the Alpha model.

However, we anticipate earnings momentum and recommendation revisions will recover for the rest of 2008, which will lead to the upgrades in the Alpha score.

Stock lending analysis

Fig 26 Modetour - short ratio vs share price



Source: Macquarie Research, May 2008

According to Macquarie's ASD team, the stock lending balance represents onshore short selling activity. Modetour's short ratio showed very weak movement until the beginning of 2008. We believe weaker-than-expected earnings and a slowdown in outbound travellers fuelled the growth of Modetour's short ratio in January, while the weakening Korean Won, the decline in air-ticket commission rates and the increased fuel surcharge hiked the stock lending position even further in March. Although we have not yet observed a clear sign of it, we view that the short ratio trend will turn downward soon, because we expect growth momentum of outbound travel demand and the company's earnings will start to rebound from May.

Modetour Network (080160 KQ, Outperform, Target price: Won50,000)

Quarterly Results		4Q/07A	1Q/08E	2Q/08E	3Q/08E
Revenue	**bn**	**23**	**26**	**25**	**40**
Gross Profit	**bn**	**23**	**26**	**25**	**40**
Cost of Goods Sold	bn	0	0	0	0
EBITDA	**bn**	**3**	**6**	**2**	**9**
Depreciation	bn	0	0	0	0
Amortisation of Goodwill	bn	0	0	0	0
Other Amortisation	bn	0	0	0	0
EBIT	**bn**	**3**	**5**	**2**	**9**
Net Interest Income	bn	1	1	1	1
Associates	bn	-1	-0	-0	-0
Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	0	0	0	0
Other Pre-Tax Income	bn	0	0	0	0
Pre-Tax Profit	**bn**	**3**	**6**	**3**	**10**
Tax Expense	bn	-1	-2	-1	-3
Net Profit	**bn**	**2**	**4**	**2**	**7**
Minority Interests	bn	0	0	0	0
Reported Earnings	**bn**	**2**	**4**	**2**	**7**
Adjusted Earnings	**bn**	**2**	**4**	**2**	**7**
EPS (rep)		246.3	526.8	228.8	830.9
EPS (adj)		246.3	526.8	228.8	830.9
EPS Growth yoy (adj)	%	-0.4	7.0	78.2	70.9
EBITDA Margin	%	12.2	21.4	9.3	22.5
EBIT Margin	%	11.2	20.6	8.4	21.9
Earnings Split	%	18.2	26.8	11.6	42.3
Revenue Growth	%	17.6	16.8	28.7	36.5
EBIT Growth	%	23.4	8.5	22.1	76.5

Profit & Loss		2007A	2008E	2009E	2010E
Revenue	**bn**	**94**	**123**	**152**	**181**
Gross Profit	**bn**	**94**	**123**	**152**	**181**
Cost of Goods Sold	bn	0	0	0	0
EBITDA	**bn**	**15**	**21**	**28**	**35**
Depreciation	bn	1	1	1	1
Amortisation of Goodwill	bn	0	0	0	0
Other Amortisation	bn	0	0	0	0
EBIT	**bn**	**14**	**20**	**27**	**34**
Net Interest Income	bn	2	3	3	4
Associates	bn	-1	-1	-0	0
Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	0	0	0	0
Other Pre-Tax Income	bn	1	1	0	0
Pre-Tax Profit	**bn**	**16**	**23**	**31**	**38**
Tax Expense	bn	-5	-6	-8	-10
Net Profit	**bn**	**11**	**17**	**22**	**28**
Minority Interests	bn	0	0	0	0
Reported Earnings	**bn**	**11**	**17**	**22**	**28**
Adjusted Earnings	**bn**	**11**	**17**	**22**	**28**
EPS (rep)		1,353	1,966	2,638	3,291
EPS (adj)		1,353	1,966	2,638	3,291
EPS Growth (adj)	%	9.7	45.3	34.2	24.7
PE (rep)	x	24.6	17.0	12.6	10.1
PE (adj)	x	24.6	17.0	12.6	10.1
Total DPS		290.0	430.0	600.0	800.0
Total Div Yield	%	0.9	1.3	1.8	2.4
Weighted Average Shares	m	8	8	8	8
Period End Shares	m	8	8	8	8

Profit and Loss Ratios		2007A	2008E	2009E	2010E
Revenue Growth	%	42.1	30.6	23.8	18.7
EBITDA Growth	%	47.4	40.3	33.2	23.7
EBIT Growth	%	46.7	40.8	34.0	24.4
Gross Profit Margin	%	100.0	100.0	100.0	100.0
EBITDA Margin	%	15.9	17.1	18.4	19.2
EBIT Margin	%	15.2	16.4	17.7	18.6
Net Profit Margin	%	12.0	13.4	14.5	15.3
Payout Ratio	%	21.4	21.9	22.7	24.3
EV/EBITDA	x	16.2	10.9	7.9	6.3
EV/EBIT	x	17.1	11.4	8.2	6.5
Balance Sheet Ratios					
ROE	%	21.5	25.5	27.4	27.9
ROA	%	17.0	19.3	22.3	24.1
ROIC	%	74.5	-457.0	-1,950.0	1,404.0
Net Debt/Equity	%	-105.5	-101.4	-98.1	-95.6
Interest Cover	x	nmf	nmf	nmf	nmf
Price/Book	x	4.9	3.9	3.1	2.6
Book Value per Share		6,861.4	8,538.8	10,748.5	12,843.4

Cashflow Analysis		2007A	2008E	2009E	2010E
EBITDA	**bn**	**15**	**21**	**28**	**35**
Tax Paid	bn	-5	-6	-8	-10
Chgs in Working Cap	bn	-4	-3	-3	-3
Net Interest Paid	bn	2	3	3	4
Other	bn	9	-0	0	1
Operating Cashflow	**bn**	**18**	**15**	**20**	**26**
Acquisitions	bn	-4	1	0	0
Capex	bn	-1	-1	-1	-1
Asset Sales	bn	0	0	0	0
Other	bn	-1	0	0	0
Investing Cashflow	**bn**	**-6**	**-0**	**-1**	**-1**
Dividend (Ordinary)	bn	-2	-2	-4	-10
Equity Raised	bn	0	0	0	0
Debt Movements	bn	0	0	0	0
Other	bn	-1	0	0	0
Financing Cashflow	**bn**	**-2**	**-2**	**-4**	**-10**
Net Chg in Cash/Debt	**bn**	**27**	**12**	**16**	**15**

Balance Sheet		2007A	2008E	2009E	2010E
Cash	bn	61	73	89	103
Receivables	bn	10	13	15	18
Inventories	bn	0	0	0	0
Investments	bn	1	1	1	1
Fixed Assets	bn	1	2	2	2
Intangibles	bn	0	0	0	0
Other Assets	bn	25	24	24	25
Total Assets	**bn**	**97**	**112**	**131**	**149**
Payables	bn	0	0	0	0
Short Term Debt	bn	0	0	0	0
Long Term Debt	bn	0	0	0	0
Provisions	bn	4	0	0	0
Other Liabilities	bn	36	40	40	41
Total Liabilities	**bn**	**40**	**40**	**40**	**41**
Shareholders' Funds	bn	59	73	92	109
Minority Interests	bn	0	0	0	0
Other	bn	-1	-1	-1	-1
Total S/H Equity	**bn**	**58**	**72**	**90**	**108**
Total Liab & S/H Funds	**bn**	**97**	**112**	**131**	**149**

All figures in Won unless noted.
Source: Macquarie Research, May 2008

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie - Asia
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of benchmark return
Neutral (Hold) – return within 5% of benchmark return
Underperform (Sell)– return >5% below benchmark return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2008

	AU/NZ	Asia	RSA	USA	CA
Outperform	38.95%	70.56%	64.52%	50.00%	69.72%
Neutral	47.37%	16.32%	27.42%	39.47%	26.06%
Underperform	13.68%	13.12%	8.06%	10.53%	4.22%

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Sales

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Hedge Fund Sales - Darin Lester	(852) 2823 4736
Structured Products - Andrew Terlich	(852) 2249 3225