

KOREA

Modetour Network

24 June 2008

080160 KQ Underperform

Stock price as of 23 Jun 08	Won	24,800
12-month target	Won	22,000
Upside/downside	%	-11.3
Valuation - PER	Won	22,000

GICS sector	consumer services		
Market cap	Won m	208,320	
30-day avg turnover	Won m	1,318.4	
Market cap	US\$m	202	
Number shares on issue	m	8.40	

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	bn	94.4	111.0	133.7	157.1
EBIT	bn	14.3	15.6	19.0	23.1
EBIT Growth	%	46.7	9.0	21.9	21.3
Reported profit	bn	11.4	13.3	16.0	19.4
Adjusted profit	bn	11.4	13.3	16.0	19.4
EPS rep	Won	1,353	1,580	1,909	2,311
EPS rep growth	%	6.8	16.8	20.8	21.1
EPS adj	Won	1,353	1,580	1,909	2,311
EPS adj growth	%	9.7	16.8	20.8	21.1
PE rep	x	18.3	15.7	13.0	10.7
PE adj	x	18.3	15.7	13.0	10.7
Total DPS	Won	290	380	500	650
Total div yield	%	1.2	1.5	2.0	2.6
ROA	%	17.0	15.5	16.8	17.5
ROE	%	21.5	21.8	22.7	23.5
EV/EBITDA	x	11.4	9.6	7.8	6.5
Net debt/equity	%	-105.5	-95.8	-102.7	-108.2
Price/book	x	3.6	3.2	2.7	2.4

080160 KQ rel Kospi performance, & rec history



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

Analyst

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Not in a good mode

Event

- We are downgrading our rating on Modetour Network (Modetour) from Outperform to Underperform and lowering our target price from Won50,000 to Won22,000 based on our concerns over soaring inflationary pressures.

Impact

- Poor June–July results expected.** According to the company, June results and advance bookings for July package tours are much poorer than expected because of the current unstable social condition (candlelight vigils) and higher package-tour prices adversely affecting demand for outbound tourism.
- Higher fuel surcharge to dampen demand further.** In response to the soaring oil price, the Korean government has allowed a higher fuel surcharge for airline companies. We expect demand for outbound travel to be further dampened by higher airline ticket prices (from the higher fuel surcharge, effective from 1 July).
- Lower growth, lower valuation.** We derived our target price of Won22,000 applying a 14x 2008E PER, which is well below the average of a historical 12-month forward PER of 23x. We believe the below-average valuation is appropriate as we expect 17% EPS growth in 2008 vs 41% EPS CAGR for 2004–07.

Earnings revision

- We cut our EPS forecasts for 2008 and 2009 by 20% and 28%, respectively, reflecting concerns over higher package-tour prices and weakening demand for outbound tourism.

Price catalyst

- 12-month price target: Won22,000 based on a PER methodology.
- Catalyst: Weaker-than-expected 2Q08 results (to be released in July) and a weak outbound-travel datapoint in July (to be released in August).

Action and recommendation

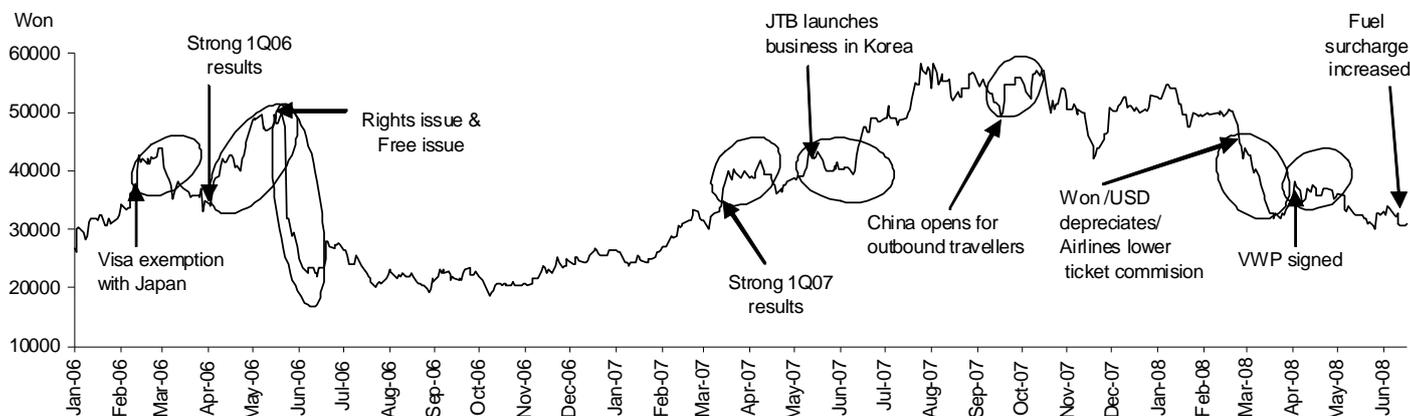
- Modetour is ranked 90 out of 229 stocks in the Macquarie Alpha model. Despite an improved ranking in the Alpha model since our initiation in May, Modetour still suffers from the poor Alpha score for the stock's 12-month momentum. We expect the stock to continue having downward pressure because we believe there will be earnings downgrades by the Street, weighing heavily on share-price sentiment.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Not in a good mode

- We are downgrading our rating on Modetour Network (Modetour) from Outperform to Underperform and lowering our target price from Won50,000 to Won22,000 based on our concerns over soaring inflationary pressures.

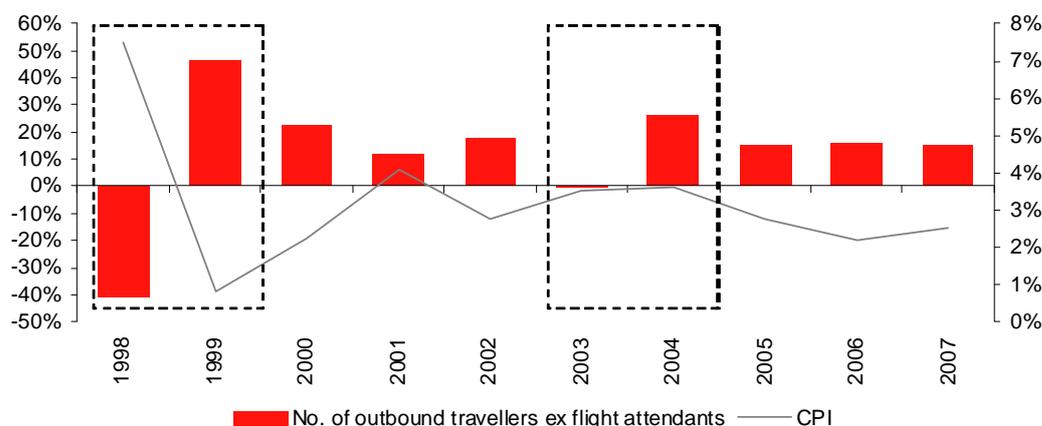
Fig 1 Modetour – share price with key events



Source: QuantWise, company data, Maeil Business News, Macquarie Research, June 2008

- **Poor June-July results expected.** According to the company, June results and advance bookings for July package tours are much poorer-than-expected because of the current unstable social condition (candlelight vigils) and higher package-tour prices adversely affecting demand for outbound tourism.
- **Higher fuel surcharge to dampen demand further.** In response to the soaring oil price, the Korean government has allowed a higher fuel surcharge for airline companies. We expect demand for outbound travel to be further dampened by higher airline-ticket prices (from the higher fuel surcharge, effective from 1 July).

Fig 2 Outbound travellers vs CPI (YoY)



Source: NSO, Macquarie Research, June 2008

- We revise down our assumption on total outbound-traveller volume growth in 2008 from 11.8% to 3.2%, reflecting recent weak volume and our concerns over deteriorating demand because of soaring inflationary pressures. However, given that pent-up demand drove stronger growth for the following year, after volume declines in 1998 (Asian financial crisis) and 2003 (outbreak of SARS), we expect outbound-travel demand to regain stronger growth momentum in 2009.

- We cut our EPS forecasts for 2008 and 2009 by 20% and 28%, respectively, reflecting concerns over higher package-tour prices and weakening demand for outbound tourism. Our 2008 and 2009 EPS forecasts are lower than consensus estimates by 15% and 27%, respectively.

Fig 3 Modetour – key assumptions

	2004	2005	2006	2007	2008E	2009E	2010E
No. of total departure ('000) - KTO	8,009	9,209	10,571	12,295	12,693	13,643	14,673
YoY growth (%)	26	15	15	16	3	7	8
No. of travellers ('000) - Modetour	192	257	412	649	748	906	1,084
YoY growth (%)	52.0	34.0	60.1	57.8	15.1	21.2	19.7
Modetour M/S (%)	2.4	2.8	3.9	5.3	5.9	6.6	7.4

Source: Company data, Macquarie Research, June 2008

Fig 4 Modetour – key sales assumptions

	2004	2005	2006	2007	2008E	2009E	2010E
Gross sales (Won bn)	289	350	515	721	893	1,094	1,301
YoY growth (%)	38	21	47	40	24	22	19
Package tour gross sales (Won bn)	152	210	352	535	703	890	1,087
YoY growth (%)	52	38	68	52	31	27	22
No. of travellers ('000)	179	252	412	649	748	906	1,084
YoY growth (%)	61	41	63	58	15	21	20
ASP (Won1,000)	851	832	854	824	940	983	1,002
YoY growth (%)	-5	-2	3	-4	14	5	2
Airline ticket gross sales (Won bn)	136	140	163	186	191	204	214
YoY growth (%)	26	3	16	14	3	7	5
No. of travellers ('000)	210	212	242	277	290	302	311
YoY growth (%)	23	1	14	15	5	4	3
ASP (Won1,000)	651	661	674	670	658	675	689
YoY growth (%)	2	2	2	-1	-2	3	2
Net sales (Income Statement) (Won bn)	32	39	66	94	111	134	157
YoY growth (%)	40	23	71	42	18	20	18
Package tour net sales (Won bn)	14	19	40	60	74	94	115
YoY growth (%)	49	36	106	50	24	27	22
Airline ticket net sales (Won bn)	17	18	25	31	32	34	36
YoY growth (%)	35	8	37	25	4	6	5
Others (Won bn)	1	2	2	4	5	6	7
YoY growth (%)	7	93	20	92	34	20	15

Source: Company data, Macquarie Research, June 2008

Fig 5 Modetour – earnings revision

(Won bn)	Revised		Previous		Change (%)	
	2008E	2009E	2008E	2009E	2008E	2009E
Sales	111	134	123	152	-9.9	-12.3
Operating profit	16	19	20	27	-22.6	-29.6
Pre-tax profit	18	22	23	31	-19.4	-26.7
Net profit	13	16	17	22	-19.6	-27.7
EPS (Won)	1,580	1,909	1,966	2,638	-19.6	-27.7
DPS (Won)	380	500	430	600	-11.6	-16.7
OP margin (%)	14.1	14.2	16.4	17.7		
RP margin (%)	16.6	16.8	18.6	20.0		
Net margin (%)	12.0	12.0	13.4	14.5		

Source: Macquarie Research, June 2008

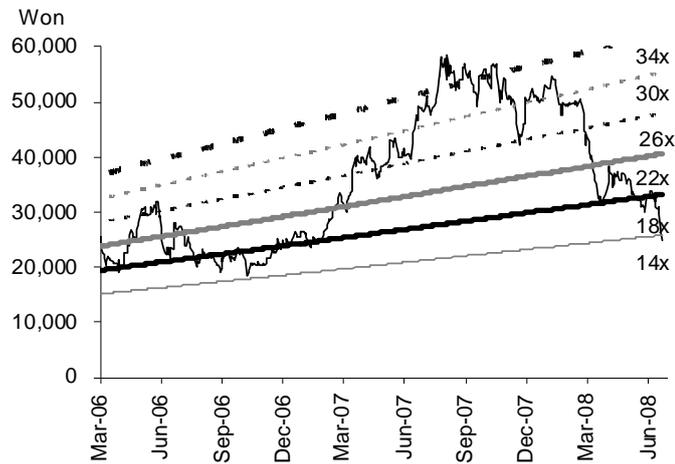
Fig 6 Modetour – earnings forecasts (Macquarie vs consensus vs company guidance)

(Won bn)	Revised		Consensus		Co. guidance	vs consensus		vs guidance
	2008E	2009E	2008E	2009E	2008E	2008E	2009E	2008E
Sales	111	134	120	150	134	-7.2	-11.0	-17.1
Operating profit	16	19	20	28	23	-21.8	-31.4	-32.1
Pre-tax profit	18	22	22	31		-15.3	-27.4	
Net profit	13	16	16	22		-15.0	-27.4	
EPS (Won)	1,580	1,909	1,858	2,630		-15.0	-27.4	
DPS (Won)	380	500	450	700		-15.6	-28.6	
OP margin (%)	14.1	14.2	16.7	18.5				
RP margin (%)	16.6	16.8	18.2	20.5				
Net margin (%)	12.0	12.0	13.1	14.7				

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

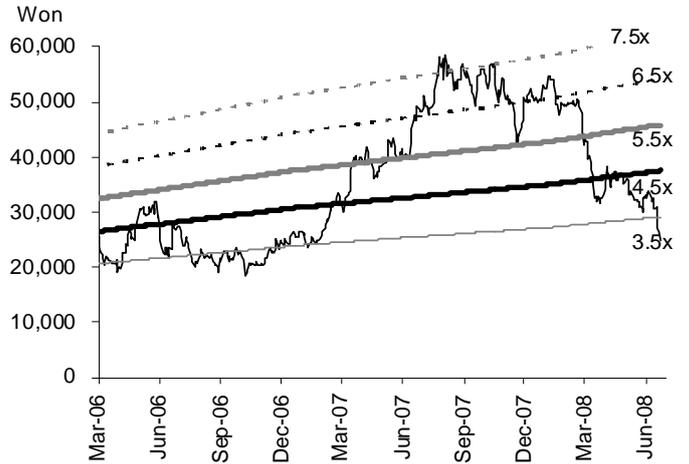
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Fig 7 Modetour – 12-month forward PER



Source: Macquarie Research, June 2008

Fig 8 Modetour – 12-month forward P/BV



Source: Macquarie Research, June 2008

Fig 9 Comparable analysis

		Modetour Networks	Hana Tour	CTIP.COM	China CYTS Tours	China Travel Intl.	Lijiang Yulong
Code		080160 KQ	039130 KQ	CTRP US	600138 CH	308 HK	002033 CH
Currency		Won	Won	US\$	CNY	HKD	CNY
Price		24,800	39,700	47.4	13.8	2.4	13.2
Market cap (bn)		208.3	461.2	3.1	5.7	13.5	1.3
Fiscal YE		Dec	Dec	Dec	Dec	Dec	Dec
P/E (x)	2008E	15.7	15.0	36.5	19.3	16.0	21.7
	2009E	13.0	11.3	27.2	15.6	15.8	17.5
	2010E	10.7	9.5	20.5	n.a.	15.6	12.5
EPS growth (%), yoy	2008E	16.8	16.8	-72.0	60.3	85.3	10.4
	2009E	20.8	32.4	34.3	23.9	1.1	23.9
	2010E	21.1	18.9	32.8	n.a.	1.1	40.1
P/BV (x)	2008E	3.2	3.7	11.3	2.7	1.2	3.2
	2009E	2.7	3.0	8.5	n.a.	1.2	2.8
	2010E	2.4	2.5	6.6	n.a.	1.2	2.5
ROE (%)	2008E	21.8	27.4	31.0	13.7	7.6	14.9
	2009E	22.7	29.0	31.3	n.a.	7.5	16.2
	2010E	23.5	28.8	32.1	n.a.	7.4	19.9
EV/EBITDA (x)	2008E	9.6	8.1	23.2	n.a.	6.3	1.7
	2009E	7.8	6.3	16.2	n.a.	5.5	1.1
	2010E	6.5	5.4	n.a.	n.a.	n.a.	n.a.
Sales growth (%)	2008E	17.7	17.2	-79.0	23.8	15.6	15.0
	2009E	20.4	19.4	47.2	11.0	14.8	31.7
	2010E	17.5	15.0	34.6	n.a.	9.1	12.5
OP margin (%)	2008E	14.1	17.5	32.5	11.5	16.5	52.1
	2009E	14.2	18.5	34.6	12.7	18.7	48.9
	2010E	14.7	18.8	33.8	n.a.	20.9	52.4

Source: FactSet, Macquarie Research, June 2008

Quantitative analysis

- Modetour is ranked 90 out of 229 stocks in the Macquarie Alpha model. Modetour has very strong one-month reversion potential and strong forecast earnings certainty. However, Modetour suffers from very poor 12-month momentum.
- With Modetour earnings being hit hard from soaring inflationary pressures and weakening consumption, we expect that strong one-month reversion is unlikely to be achieved. We expect its strong forecast-earnings certainty to fizzle out, with growing uncertainties about macrovariables, including the oil price and foreign exchange-rate movement. We expect the stock to continue having downward momentum because we believe there will be consensus earnings downgrades, weighing heavily on the share price.



MODETOUR NETWORK INC (P) (080160)

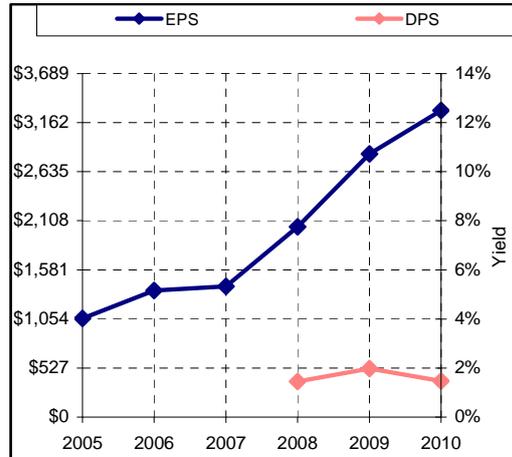
Price: \$26,350.00; Market Cap: \$221.3b; Sector: Transport & Utilities; Industry: Tra Multi-Industry

Quant Scorecard

Factor	Score		Rank		
	Raw	Std	Mkt	Sect	Ind
Earn Rev	-0.4	-0.2	154	8	1
Composite Value	0.0	0.0	113	5	1
Rec'd	2.2	-0.6	181	7	1
Rec Revision	0.1	0.9	36	3	1
Earn. Certainty	16%	0.0	140	4	1
12 Mnth Mom	-34%	-1.1	198	10	1
1 Mnth Reversion	-16%	1.2	22	3	1
Overall			90/229	4/11	1/1

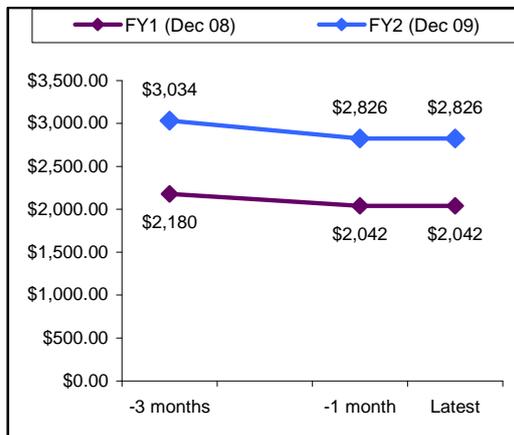
Source: Macquarie Research and Thomson Financial I/B/E/S

Historic & Forecast Valuation Data



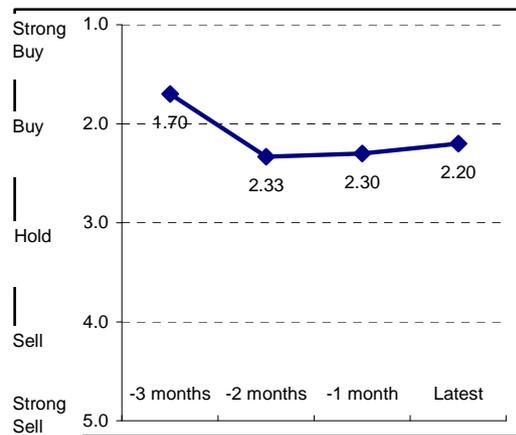
Source: Thomson Financial I/B/E/S

Forecast Earnings Revisions



Source: Thomson Financial I/B/E/S

Consensus Recommendation



Source: Thomson Financial I/B/E/S

The Good ...

Very Strong 1 Month Reversion Potential
 Ranked 22 out of 229 stocks in market

Strong Recommendation Revision
 Ranked 36 out of 229 stocks in market

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

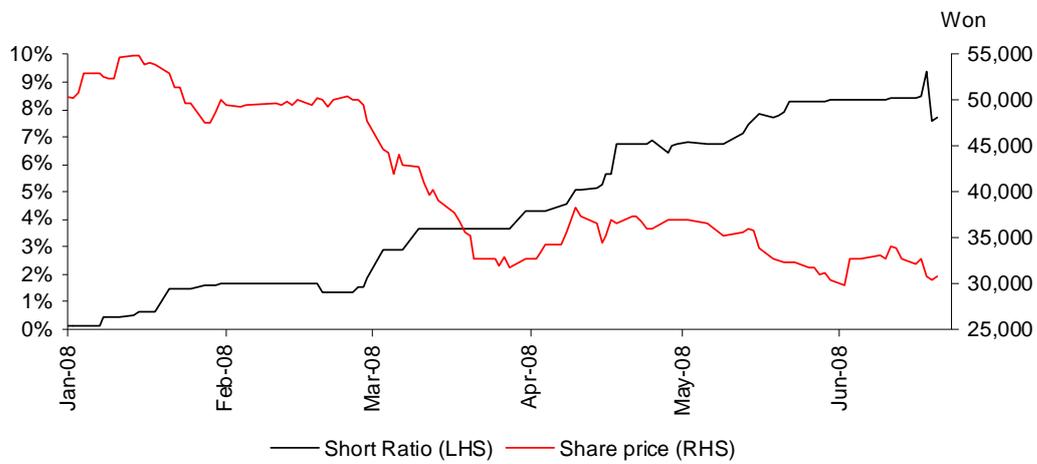
And Bad ...

Very Poor 12 Month Momentum
 Ranked 10 out of 11 stocks in sector

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

Stock-lending analysis

Fig 10 Modetour – short ratio vs share price



Source: Macquarie Research, June 2008

- After days of the short ratio being stagnant, last week Modetour’s short ratio declined sharply. We believe that the sudden drop is because of short-covering activities after the recent sharp fall in the share price. However, we expect the stock’s short ratio to rise again with weaker-than-expected earnings, being affected by soaring inflation and weakening consumption and the stock to continue having downward pressure.

Modetour Network (080160 KQ, Underperform, Target price: Won22,000)

Quarterly Results					Profit & Loss						
		1Q/08A	2Q/08E	3Q/08E	4Q/08E		2007A	2008E	2009E	2010E	
Revenue	bn	27	22	35	28	Revenue	bn	94	111	134	157
Gross Profit	bn	27	22	35	28	Gross Profit	bn	94	111	134	157
Cost of Goods Sold	bn	0	0	0	0	Cost of Goods Sold	bn	0	0	0	0
EBITDA	bn	5	2	6	3	EBITDA	bn	15	16	20	24
Depreciation	bn	0	0	0	0	Depreciation	bn	1	1	1	1
Amortisation of Goodwill	bn	0	0	0	0	Amortisation of Goodwill	bn	0	0	0	0
Other Amortisation	bn	0	0	0	0	Other Amortisation	bn	0	0	0	0
EBIT	bn	5	2	5	3	EBIT	bn	14	16	19	23
Net Interest Income	bn	1	1	1	1	Net Interest Income	bn	2	3	3	4
Associates	bn	0	-0	-0	-0	Associates	bn	-1	-0	-0	0
Exceptionals	bn	0	0	0	0	Exceptionals	bn	0	0	0	0
Forex Gains / Losses	bn	0	0	0	0	Forex Gains / Losses	bn	0	0	0	0
Other Pre-Tax Income	bn	0	-0	-0	0	Other Pre-Tax Income	bn	1	0	0	-0
Pre-Tax Profit	bn	6	2	6	4	Pre-Tax Profit	bn	16	18	22	27
Tax Expense	bn	-2	-1	-2	-1	Tax Expense	bn	-5	-5	-6	-8
Net Profit	bn	5	2	4	3	Net Profit	bn	11	13	16	19
Minority Interests	bn	0	0	0	0	Minority Interests	bn	0	0	0	0
Reported Earnings	bn	5	2	4	3	Reported Earnings	bn	11	13	16	19
Adjusted Earnings	bn	5	2	4	3	Adjusted Earnings	bn	11	13	16	19
EPS (rep)		537.6	197.9	520.8	324.0	EPS (rep)		1,353	1,580	1,909	2,311
EPS (adj)		537.6	197.9	520.8	324.0	EPS (adj)		1,353	1,580	1,909	2,311
EPS Growth yoy (adj)	%	9.1	54.1	7.1	31.6	EPS Growth (adj)	%	9.7	16.8	20.8	21.1
						PE (rep)	x	18.3	15.7	13.0	10.7
						PE (adj)	x	18.3	15.7	13.0	10.7
EBITDA Margin	%	20.6	8.8	16.1	12.1	Total DPS		290.0	380.0	500.0	650.0
EBIT Margin	%	20.0	7.9	15.5	11.3	Total Div Yield	%	1.2	1.5	2.0	2.6
Earnings Split	%	34.0	12.5	33.0	20.5	Weighted Average Shares	m	8	8	8	8
Revenue Growth	%	16.9	11.9	19.5	21.0	Period End Shares	m	8	8	8	8
EBIT Growth	%	5.1	-0.1	9.5	22.2						
Profit and Loss Ratios					Cashflow Analysis						
		2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E	
Revenue Growth	%	42.1	17.7	20.4	17.5	EBITDA	bn	15	16	20	24
EBITDA Growth	%	47.4	9.2	21.3	20.5	Tax Paid	bn	-5	-5	-6	-8
EBIT Growth	%	46.7	9.0	21.9	21.3	Chgs in Working Cap	bn	8	6	3	3
Gross Profit Margin	%	100.0	100.0	100.0	100.0	Net Interest Paid	bn	2	3	3	4
EBITDA Margin	%	15.9	14.8	14.9	15.2	Other	bn	-3	-6	2	2
EBIT Margin	%	15.2	14.1	14.2	14.7	Operating Cashflow	bn	18	14	22	26
Net Profit Margin	%	12.0	12.0	12.0	12.4	Acquisitions	bn	-4	0	0	0
Payout Ratio	%	21.4	24.0	26.2	28.1	Capex	bn	-1	-1	-1	-1
EV/EBITDA	x	11.4	9.6	7.8	6.5	Asset Sales	bn	0	0	0	0
EV/EBIT	x	12.0	10.1	8.2	6.7	Other	bn	-1	-2	0	0
Balance Sheet Ratios						Investing Cashflow	bn	-6	-3	-1	-1
ROE	%	21.5	21.8	22.7	23.5	Dividend (Ordinary)	bn	-2	-2	-3	-8
ROA	%	17.0	15.5	16.8	17.5	Equity Raised	bn	0	0	0	0
ROIC	%	74.5	-352.7	509.8	-807.8	Debt Movements	bn	0	0	0	0
Net Debt/Equity	%	-105.5	-95.8	-102.7	-108.2	Other	bn	-1	-2	0	0
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	bn	-2	-4	-3	-8
Price/Book	x	3.6	3.2	2.7	2.4	Net Chg in Cash/Debt	bn	27	1	18	16
Book Value per Share		6,861.4	7,657.1	9,187.2	10,501.6						
					Balance Sheet						
		2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E	
Cash	bn	61	62	79	95	Cash	bn	61	62	79	95
Receivables	bn	10	7	8	9	Receivables	bn	10	7	8	9
Inventories	bn	0	0	0	0	Inventories	bn	0	0	0	0
Investments	bn	1	8	8	8	Investments	bn	1	8	8	8
Fixed Assets	bn	1	1	2	2	Fixed Assets	bn	1	1	2	2
Intangibles	bn	0	0	0	0	Intangibles	bn	0	0	0	0
Other Assets	bn	25	25	26	26	Other Assets	bn	25	25	26	26
Total Assets	bn	97	103	123	141	Total Assets	bn	97	103	123	141
Payables	bn	21	24	28	33	Payables	bn	21	24	28	33
Short Term Debt	bn	0	0	0	0	Short Term Debt	bn	0	0	0	0
Long Term Debt	bn	0	0	0	0	Long Term Debt	bn	0	0	0	0
Provisions	bn	4	0	0	0	Provisions	bn	4	0	0	0
Other Liabilities	bn	16	15	18	20	Other Liabilities	bn	16	15	18	20
Total Liabilities	bn	40	39	46	53	Total Liabilities	bn	40	39	46	53
Shareholders' Funds	bn	59	67	80	91	Shareholders' Funds	bn	59	67	80	91
Minority Interests	bn	0	0	0	0	Minority Interests	bn	0	0	0	0
Other	bn	-1	-3	-3	-3	Other	bn	-1	-3	-3	-3
Total S/H Equity	bn	58	64	77	88	Total S/H Equity	bn	58	64	77	88
Total Liab & S/H Funds	bn	97	103	123	141	Total Liab & S/H Funds	bn	97	103	123	141

All figures in Won unless noted.

Source: Macquarie Research, June 2008

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions																								
<p>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)</p> <p>Macquarie - Asia Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>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</p> <p>Recommendations – 12 months</p> <p>Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>Volatility index definition* This is calculated from the volatility of historic price movements.</p> <p>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.</p> <p>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.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ stocks only</p>	<p>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</p> <p>EPS = adjusted net profit / epowa* 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</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																								
<p>Recommendation proportions – For quarter ending 31 March 2008</p> <table border="1"> <thead> <tr> <th></th> <th>AU/NZ</th> <th>Asia</th> <th>RSA</th> <th>USA</th> <th>CA</th> </tr> </thead> <tbody> <tr> <td>Outperform</td> <td>38.95%</td> <td>70.56%</td> <td>64.52%</td> <td>50.00%</td> <td>69.72%</td> </tr> <tr> <td>Neutral</td> <td>47.37%</td> <td>16.32%</td> <td>27.42%</td> <td>39.47%</td> <td>26.06%</td> </tr> <tr> <td>Underperform</td> <td>13.68%</td> <td>13.12%</td> <td>8.06%</td> <td>10.53%</td> <td>4.22%</td> </tr> </tbody> </table>				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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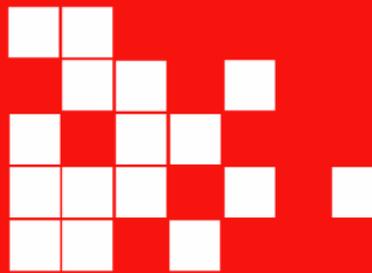
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