

Travel (Overweight)

Ride the market upswing when the won appreciates

■ Maintain Overweight rating; Top picks: Modetour Network and Hana Tour

We maintain our Overweight rating on the travel sector. Our top picks are Modetour Network (080160 KQ/Buy; Raise TP from W51,000 to W56,000) and Hana Tour (039130 KQ/Buy; Lower TP from W67,000 to W60,000).

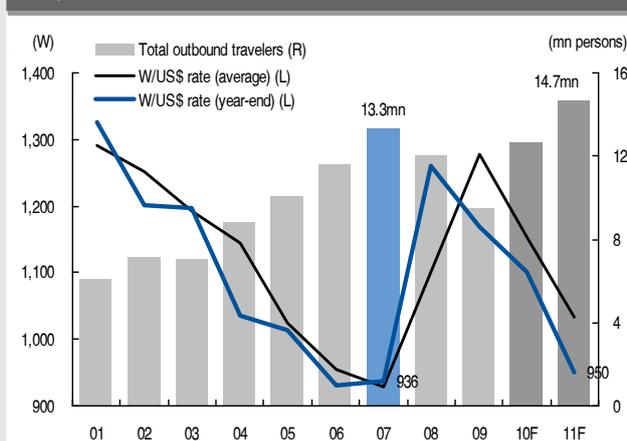
■ 1Q Earnings momentum to grow on favorable market conditions

Travel stocks have been gaining momentum since the W/US\$ rate fell below W1,200. The business environment for travel agencies should improve in 2011. On the demand side, won appreciation is anticipated to facilitate the growth of outbound travelers. On the supply side, the number of seats allocated to travel agencies is likely to grow, on the back of: 1) an increase in the number of international flights, 2) the use of Airbus A380s by Korean Air, and 3) new routes by foreign airlines. We expect Hana Tour and Modetour Network to be the major beneficiaries of higher demand in 1Q thanks to the longer-than-usual Lunar New-Year holiday.

■ Modetour Network set to enter a rapid growth stage in 2011

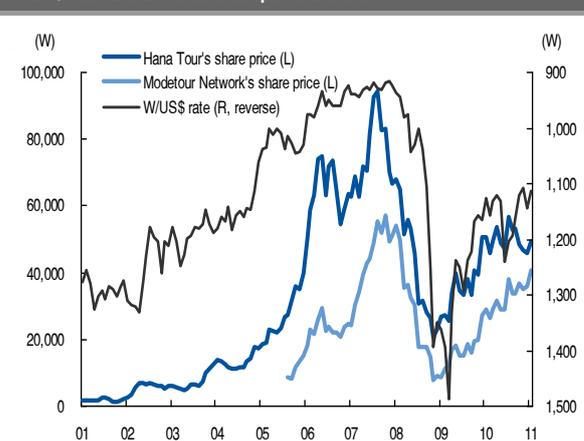
We believe that Modetour Network is set to enter a rapid growth stage. Hana Tour Service saw its outbound traveler market share surge from 7.9% (2005) to 11.3% (2006), as the industry experienced a boom on won appreciation (the W/US\$ rate fell below W1,000). At the time, Hana Tour's earnings expanded markedly and its shares outperformed the market strongly. Modetour Network is estimated to have recorded an outbound traveler market share of 8.7% in 2010, solidifying its market status. In 2011, we expect the company to grow considerably, as the W/US\$ rate will likely fall below W1,000.

W/US\$ rate and annual trend and forecast of outbound travelers



Source: KTO, BOK, Daewoo Securities Research

W/US\$ rate and travel shares' performance



Source: Thomson Reuters, Daewoo Securities Research

Investment summary

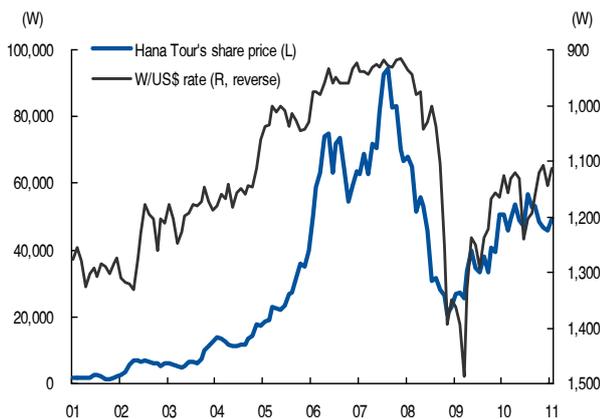
Ride the market upswing when the won appreciates

Travel stocks have an inverse correlation with the W/US\$ rate

Travel stocks have been gaining momentum since the W/US\$ rate fell below W1,200. Leading travel stocks, Hana Tour and Modetour Network, continue to increase thanks to won appreciation. The W/US\$ rate, a key driver of travel demand, has a considerable impact on the number of outbound travelers and the earnings of travel agencies. The F/X rate is directly related to travelers' expenses, such as purchasing power and prices of travel products/airfare.

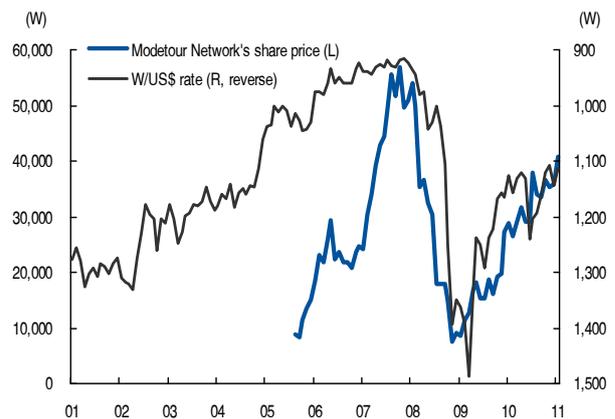
In 2011, travel agencies are expected to see an improved business environment relative to 2010. We expect the number of outbound travelers to top the previous high set in 2007 (F/X rate at end-2007: W936/US\$), thanks to: 1) a stronger won (the W/US\$ rate is forecast to decrease to W950 in end-2011), 2) the smooth supply of flight seats, 3) the rise in per capita gross national income (in excess of US\$20,000), 4) a higher number of national holidays (YoY) and 5) the spread of the five-day work week. In 2011, we expect the travel industry's sales and operating profit to grow 22.5% and 39.7% YoY, respectively. In particular, Modetour Network should enjoy the largest growth momentum, in our view.

Figure 1. W/US\$ rate and Hana Tour's share performance



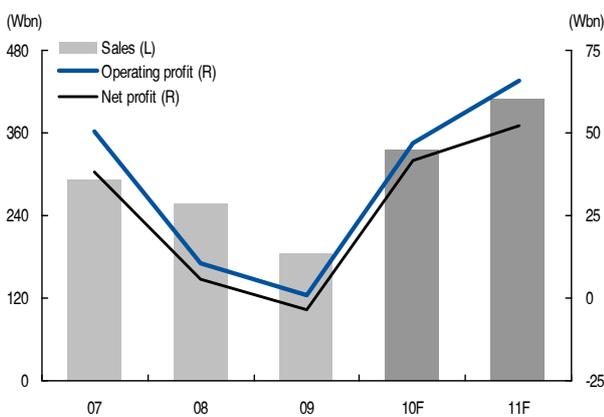
Source: Thomson Reuters, Daewoo Securities Research

Figure 2. W/US\$ rate and Modetour Network's share performance



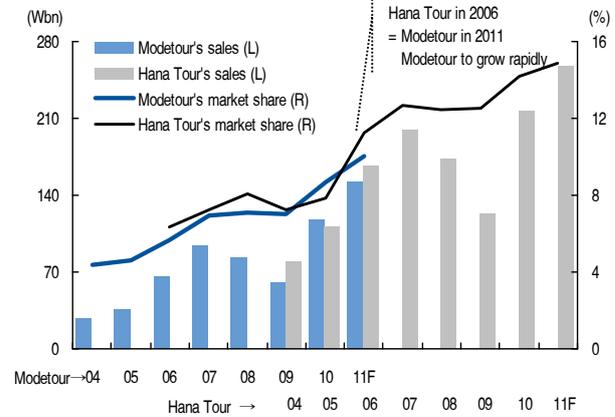
Source: Thomson Reuters, Daewoo Securities Research

Figure 3. Travel sector's annual earnings trend and forecast



Source: Company data, Daewoo Securities Research

Figure 4. Growth trend comparison of Modetour Network and Hana Tour



Source: Company data, Daewoo Securities Research

Valuation

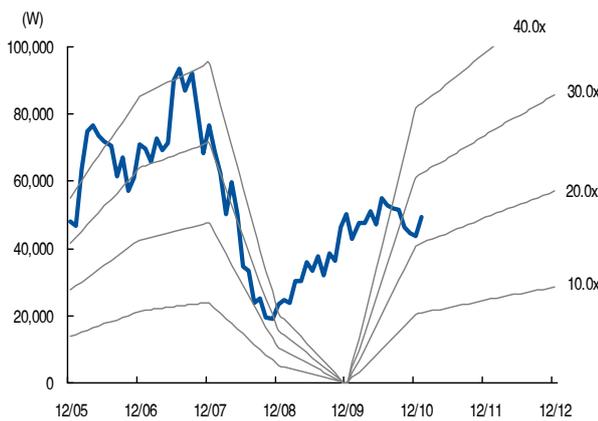
Travel stocks undervalued despite high profitability and earnings growth

Despite strong earnings growth, Modetour Network's current valuation is undemanding

Hana Tour and Modetour Network are trading at 2011F P/E of 20.1x and 14.4x, respectively. These numbers pale in comparison to their peers with similar ROEs. China-based Ctrip is trading at 2011F P/E of 32.8x and U.S.-based Priceline is trading at 2011F P/E of 24.8x. Hana Tour and Modetour Network are expected to record 2011F EPS growth of 20.4% and 31.0% YoY, respectively. In comparison, Ctrip is expected to post 2011F EPS growth of 29.5%, while Priceline and Travelzoo (2011F P/E at 49.3x) are likely to record 2011F EPS growth of 33.6% and 28.6%, respectively.

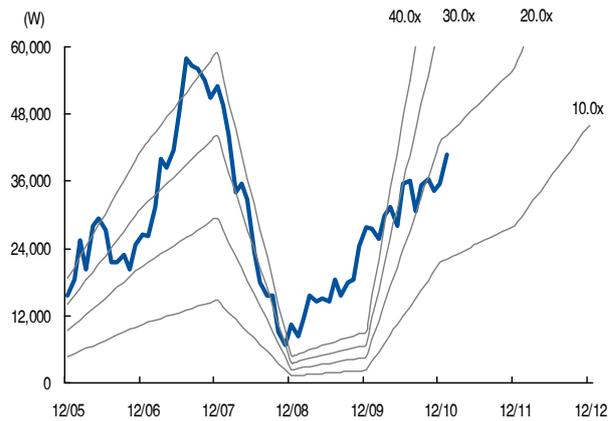
Hana Tour and Modetour Network are near the low end of their historic forward P/E ratios. Hana Tour is trading below the 2006~2008 average P/E of 33.6x (when the travel industry experienced a boom). Modetour Network remains stuck at a P/E of 14.4x (much lower than the 2006~2008 average P/E of 34.5x), despite marked earnings growth momentum. This implies that their current valuations are undemanding compared to their rivals and the industry average.

Figure 5. Hana Tour's forward P/E ratio trend



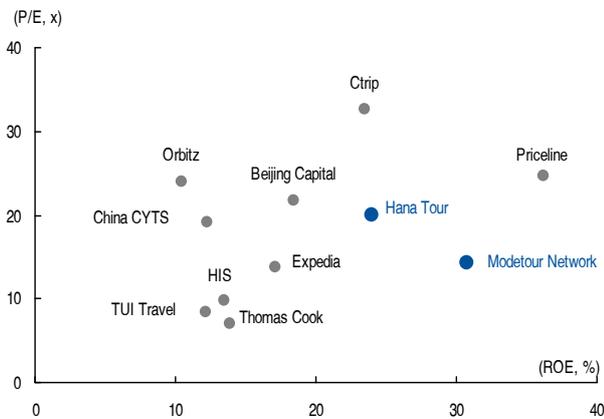
Source: Daewoo Securities Research

Figure 6. Modetour Network's forward P/E ratio trend



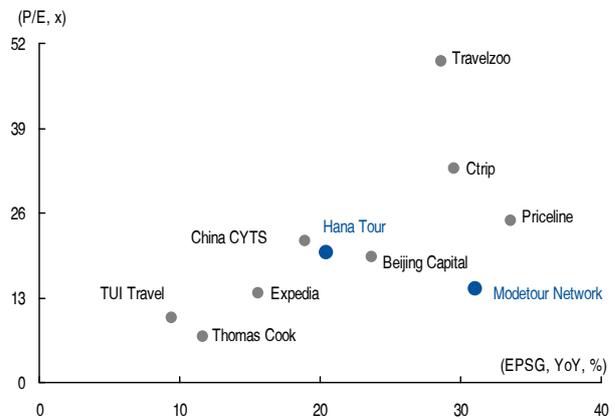
Source: Daewoo Securities Research

Figure 7. Global major travel companies' ROE and P/E (2011F)



Source: Thomson Reuters, Daewoo Securities Research

Figure 8. Global major travel companies' EPS growth and P/E (2011F)



Source: Thomson Reuters, Daewoo Securities Research

Figure 1. Global major travel companies' earnings forecast and valuation (2010F) (each country's currency, %, x)

Country	Company Name	FY	Sales	OP	NP	Share price	ROE	EPS	EPSG	P/E	OP margin	NP margin
Korea	Hana Tour	201012	217	28	24	49,300	23.6	2,041	TTB	24.2	12.7	10.9
	Modetour Network	201012	117	20	18	40,650	30.6	2,149	1,387.3	18.9	16.7	15.4
	Average						27.1			21.9	14.1	12.5
China	Ctrip	201012	430	155	150	42.09	25.2	0.99	45.8	42.5	36.0	34.8
	Beijing Capital Tourism	201012	2,107	339	207	22.21	19.1	0.85	23.7	26.0	16.1	9.8
	China CYTS Tours	201012	5,984	516	248	14.09	10.3	0.59	-3.0	23.8	8.6	4.1
	Average						18.2			33.8	23.3	20.2
Japan	HIS	201010	403	9	7	2,107	14.6	268.30	158.1	7.9	2.3	1.7
	Kinki Nippon Tourist	201012	67	1	0	77	--	2.11	TTB	36.5	2.1	0.3
	Average						14.6			22.2	2.3	1.5
U.S.	Priceline	201012	3,085	827	666	437.99	36.9	13.20	54.9	33.2	26.8	21.6
	Expedia	201012	3,340	763	498	27.30	17.5	1.72	24.3	15.9	22.8	14.9
	Travelzoo	201012	113	22	13	48.80	--	0.77	48.1	63.4	19.7	11.2
	Orbitz	201012	751	60	14	5.46	5.6	0.13	TTB	40.9	8.0	1.9
	Average						20.0			32.8	22.9	16.3
Europe	TUI Travel	201009	13,711	423	245	264.40	13.1	24.40	3.8	10.8	3.1	1.8
	Thomas Cook	201009	11,095	486	254	2.39	13.6	0.30	-9.5	8.0	4.4	2.3
	Average						13.4			10.8	3.7	2.0
Global	Average						19.0			26.3	13.6	10.2

Note: All units in billions (Korea, Japan) and millions (others) except for per share data; Among Chinese companies,

Ctrip is listed on the U.S. stock market, while the rest are listed on the Chinese stock market

Source: Thomson Reuters, Daewoo Securities Research

Figure 2. Global major travel companies' earnings forecast and valuation (2011F) (each country's currency, %, x)

Country	Company Name	FY	Sales	OP	NP	Share price	ROE	EPS	EPSG	P/E	OP margin	NP margin
Korea	Hana Tour	201112	257	36	29	49,300	23.9	2,457	20.4	20.1	13.8	11.1
	Modetour Network	201112	152	30	24	40,650	30.7	2,815	31.0	14.4	19.8	15.6
	Average						27.3			17.5	16.1	12.8
China	Ctrip	201112	568	211	195	42.09	23.5	1.28	29.5	32.8	37.1	34.4
	Beijing Capital Tourism	201112	2,421	403	240	22.21	18.4	1.01	18.9	21.9	16.7	9.9
	China CYTS Tours	201112	7,118	647	300	14.09	12.2	0.73	23.6	19.3	9.1	4.2
	Average						18.0			26.8	24.1	20.0
Japan	HIS	201210	439	11	8	2,107	12.1	249.80	-6.9	8.4	2.6	1.8
	Kinki Nippon Tourist	--	--	1	0	77	--	--	--	--	--	--
	Average						12.1			8.4	2.6	1.8
U.S.	Priceline	201112	3,904	1,146	886	437.99	36.2	17.63	33.6	24.8	29.4	22.7
	Expedia	201112	3,762	865	563	27.30	17.0	1.98	15.6	13.8	23.0	15.0
	Travelzoo	201112	129	28	17	48.80	--	0.99	28.6	49.3	21.4	13.0
	Orbitz	201112	805	76	25	5.46	10.4	0.23	TTB	24.1	9.4	3.1
	Average						21.2			24.9	24.6	17.3
Europe	TUI Travel	201209	14,027	423	245	264.40	13.4	26.70	9.4	9.9	3.0	1.7
	Thomas Cook	201209	11,386	533	287	2.39	13.8	0.33	11.7	7.2	4.7	2.5
	Average						13.6			9.9	3.8	2.1
Global	Average						19.0			19.6	15.4	11.1

Note: All units in billions (Korea, Japan) and millions (others) except for per share data; Among Chinese companies,

Ctrip is listed on the U.S. stock market, while the rest are listed on the Chinese stock market

Source: Thomson Reuters, Daewoo Securities Research

Industry outlook

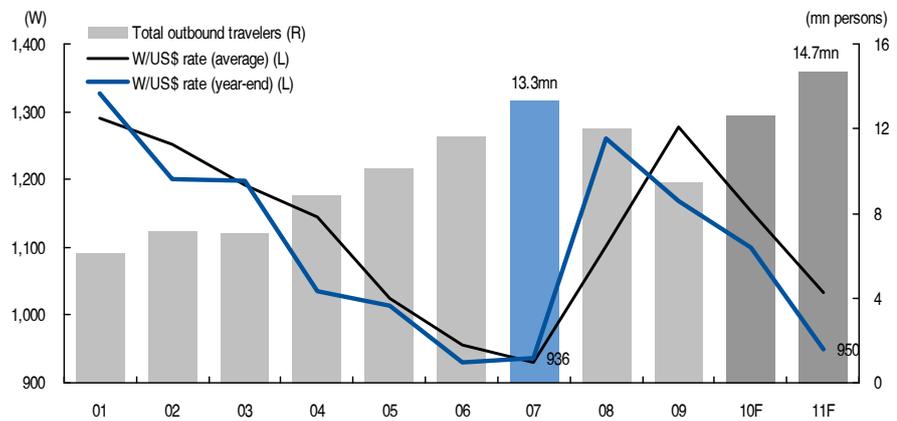
1. Demand: Outbound travelers to increase

Likely to benefit from won appreciation

In 2011, the W/US\$ rate is expected to drop to W950 at year-end, providing a catalyst for travel stocks

The W/US\$ rate is a key driver of travel demand, influencing both the number of outbound travelers and the earnings of travel agencies. In 2011, the won is expected to strengthen to W950/US\$ at year-end, similar to the level seen at end-2007 (W936/US\$). In 2010, although the travel market recovered from the slowdown, which started in 2008, outbound traveler numbers remained weak (total outbound travelers came in below the previous boom level of 13.32mn set in 2007).

Figure 9. W/US\$ rate and annual outbound traveler trend



Source: KTO, BOK, Daewoo Securities Research

Figure 10. W/US\$ rate and performance of travel stocks



Source: Thomson Reuters, Daewoo Securities Research

2. Supply: Number of flights and seats to increase

Supply to rise on increases in the number of flights and seats

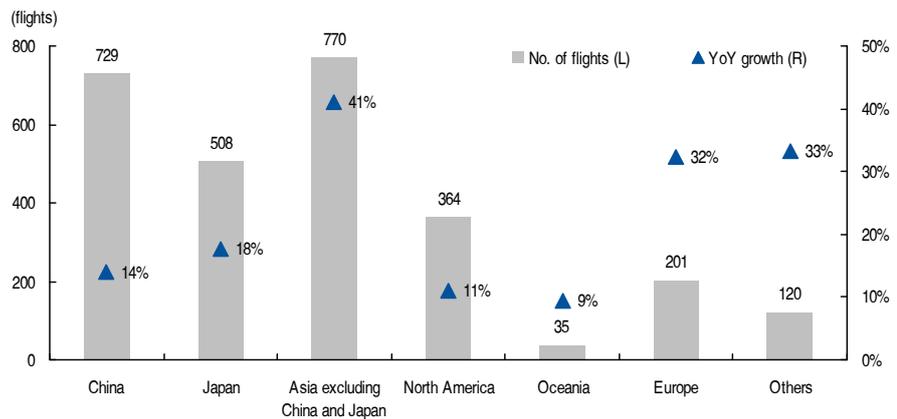
The increase in the number of international flights appears to have boosted the number of seats available to travel agencies. In 2010, airlines increased the number of flights at a modest pace despite the recovery of the travel market, leading to flight shortages and limiting earnings growth at travel agencies. However, flight shortages should ease markedly in 2011, considering that the number of flights (particularly to major tourist destinations) should rise sharply.

The number of flights to high-demand Asian countries (including Southeast Asian countries) has soared 41% YoY

According to the Ministry of Land, Transport and Maritime Affairs, the number of flights from October 31, 2010 to March 26, 2011 expanded by 11% YoY. In particular, the number of flights to high-demand Asian countries (including Southeast Asian countries) has soared 41% YoY. The number of long-haul flights to Europe, U.S., and Oceania also climbed 32%, 11%, and 9% YoY, respectively.

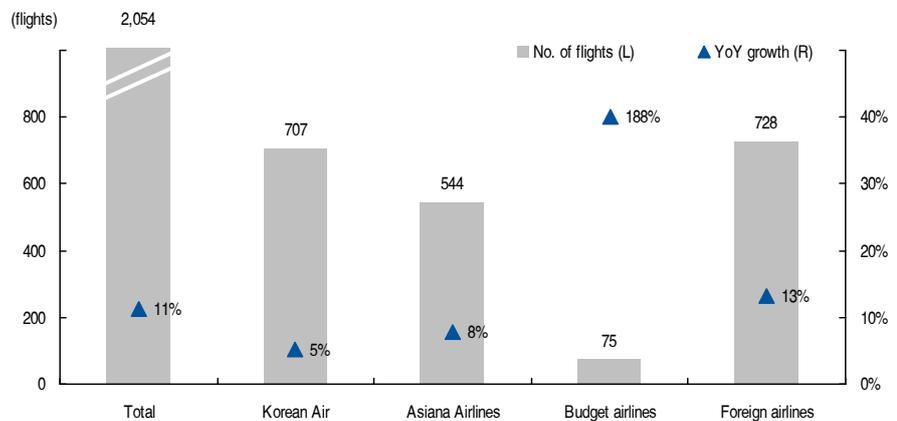
By airline, Korean Air and Asiana Airlines increased international flights by 5% and 8% YoY respectively. In particular, since Korean Air plans to operate the Airbus A380 (the largest passenger aircraft in the world) starting in May, the pace of seat growth should outpace flight growth. Furthermore, budget airlines increased international flights by 188% YoY, while flights by foreign airlines climbed by 13% YoY aided by the addition of ten new airlines.

Figure 11. Changes in international flight numbers by region



Note: Based on the period between Oct. 31, 2010 and Mar. 26, 2011; Source: MLTM, Daewoo Securities Research

Figure 12 Changes in international flight numbers by airline



Note: As of Jan. 2011; Source: MLTM, Daewoo Securities Research

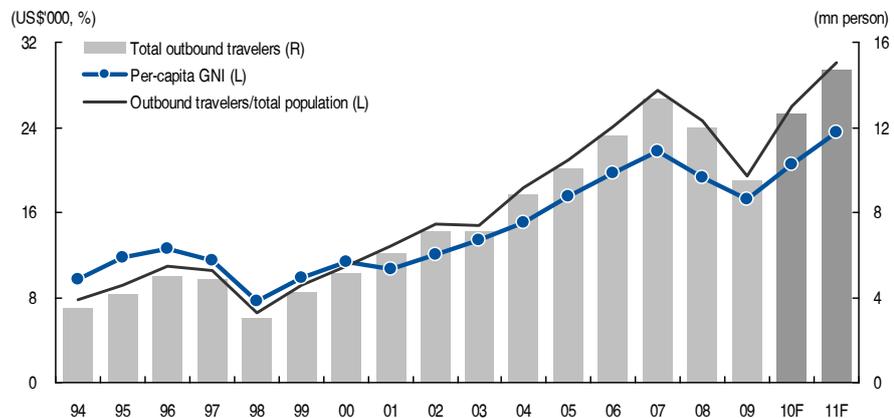
3. Market outlook

The number of outbound travelers is expected to top the previous high set in 2007

In 2011, we expect the number of outbound travelers, which recovered from 2010 after bottoming in 2009, to top the previous high set in 2007, thanks to: 1) the rise in per capita GNI (in excess of US\$20,000), 2) a stronger won, 3) the smooth supply of flight seats available to travel agencies, 4) a higher number of national holidays (YoY), and 5) the spread of the five-day work week.

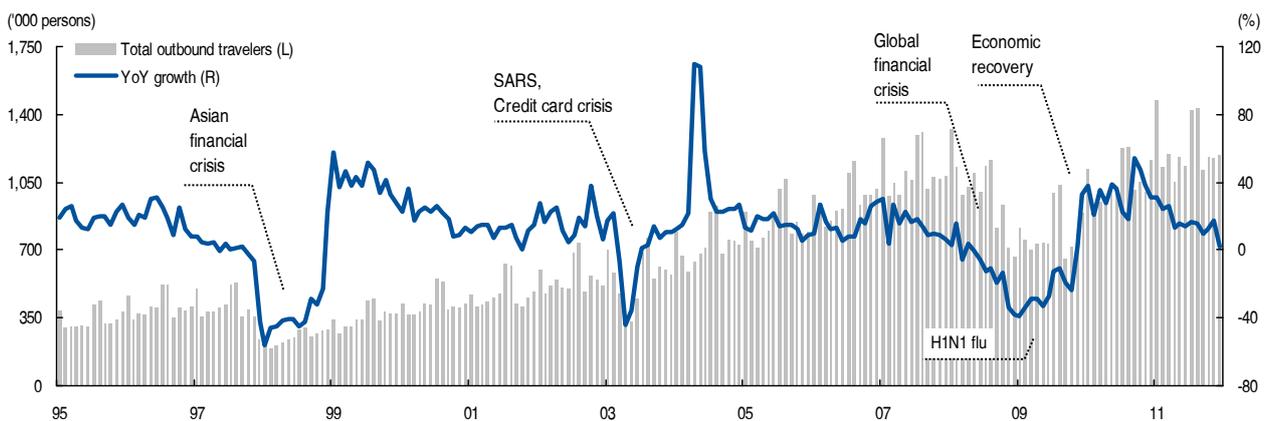
The number of outbound travelers reached 13.32mn (27.5% of the total population) in 2007 when per-capita GNI stood at US\$21,695. In 2010, per-capita GNI was estimated at US\$20,500, while the number of outbound travelers is estimated to have reached 12.63mn, or 25.9% of the population. In 2011, per-capita GNI is expected to rise to US\$23,519, while the number of outbound travelers is projected to expand to 14.69mn, or 30.1% of the population. Taiwan, whose economy is similar in size to Korea, has seen per-capita GNI exceed US\$20,000 and the percentage of outbound travelers reach 30%, since 2004. In particular, the percentage of outbound travelers climbed to 35.3% in 2009.

Figure 13. Per-capita GNI and outbound traveler trends



Source: MOSF, BOK, Daewoo Securities Research

Figure 14. Monthly outbound traveler trend and forecast



Source: KTO, Daewoo Securities Research

4. Industry structure outlook

Top-tier wholesalers' market share to increase

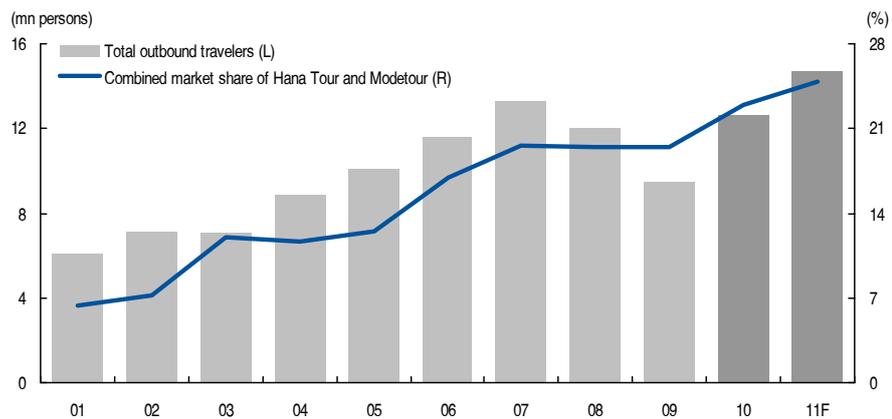
High barriers to become top-tier companies

We expect the travel industry to shift closer to an oligopolistic market structure, with top-tier wholesalers gaining market share, including Hana Tour and Modetour Network. The Korea Association of Travel Agents' statistics show that entry barriers are low; every year, many new players enter and leave the industry in line with fluctuations in the economy and industry. However, there are high barriers to become top-tier companies, which enjoy economies of scale.

In 2011, Korean Air and Asiana Airlines plan to implement a zero-commission policy, further weakening the competitiveness of smaller agencies whose profits depend on air ticket sales. As ticket sales via top-tier travel agencies increase, demand for package tours, the main source of revenue for top-tier travel agencies, is also likely to rise.

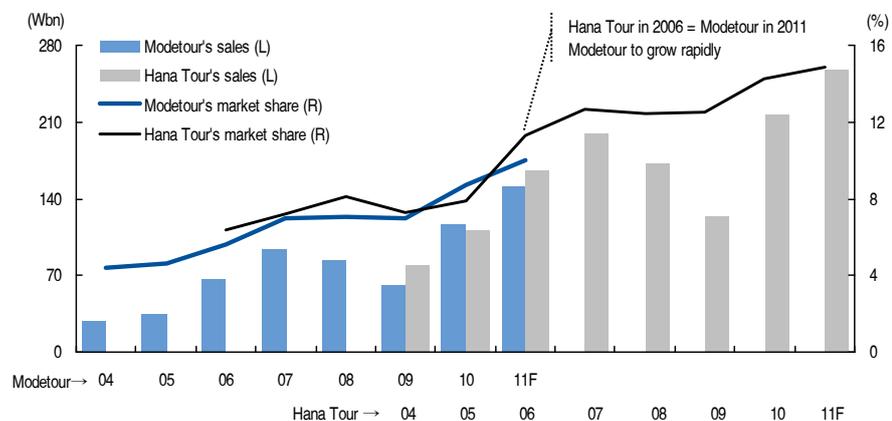
We believe that Modetour Network is set to enter a rapid growth stage. Hana Tour Service saw its outbound traveler market share surge from 7.9% (2005) to 11.3% (2006), as the industry experienced a boom on won appreciation (the W/US\$ rate fell below W1,000). At the time, Hana Tour's earnings expanded markedly and its shares outperformed the market strongly. Modetour Network is estimated to have recorded an outbound traveler market share of 8.7% in 2010, solidifying its market status. In 2011, we expect the company to grow considerably, as the W/US\$ rate will likely fall below W1,000.

Figure 15. Outbound traveler market shares of Hana Tour and Modetour Network



Source: KTO, Company data, Daewoo Securities Research

Figure 16. Growth trend of Hana Tour and Modetour Network



Source: Company data, Daewoo Securities Research

Earnings outlook

Earnings momentum expected in 1Q10

1Q Earnings to grow on:
1) long Lunar New Year vacation; and
2) increase in package tour reservations

We forecast the travel sector's (including Hana Tour Service and Modetour Network) 4Q10 sales and operating profit to have reached W83bn (up 83.7% YoY) and W3bn (TTB YoY), respectively. Although the sector did not benefit from a low base of comparison as earnings began to rebound in 4Q09, steady top-line growth thanks to strong demand during the winter vacation is expected to have driven up earnings. However, profit growth appears to be limited due to incentive payments to employees.

In 1Q11, the travel sector's sales and operating profit are projected to improve 31% and 57.7% YoY, respectively. Reservations for both short- and long-haul package tours are on the rise compared to the previous year thanks to the long Lunar New Year vacation. In addition, airline seat supply has eased on an increase in international flights.

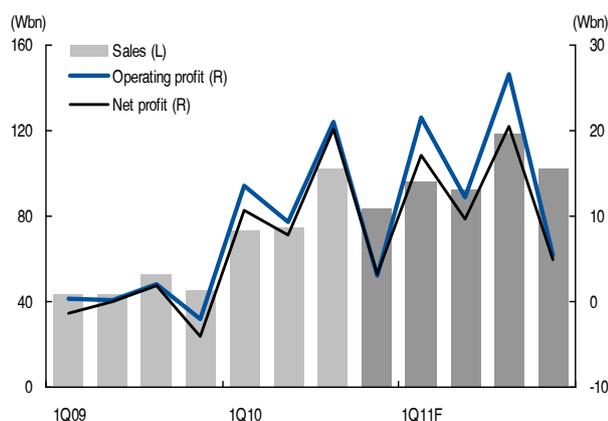
Table 3. Travel sector's quarterly and annual earnings trend and forecast

(Wbn, %)

	1Q10	2Q10	3Q10	4Q10F	1Q11F	2Q11F	3Q11F	4Q11F	2009	2010F	2011F
Sales	73	75	103	83	96	92	118	102	185	334	409
Operating profit	14	9	21	3	21	12	27	5	1	47	66
OP Margin	18.5	12.4	20.5	3.7	22.3	13.2	22.5	5.3	0.4	14.1	16.1
Pretax profit	14	10	23	4	23	13	28	7	-1	52	71
Pretax margin	19.7	13.8	22.8	5.2	24.0	14.2	23.4	6.5	-0.8	15.7	17.3
Net profit	11	8	20	3	17	10	20	5	-4	42	52
NP margin	14.6	10.4	19.6	3.8	17.7	10.5	17.3	4.8	-2.0	12.5	12.8
YoY growth											
Sales	68.3	71.2	95.0	83.7	31.0	23.4	15.3	23.0	-27.6	80.3	22.5
Operating profit	3372.8	3744.9	939.0	TTB	57.7	30.6	26.6	77.8	-93.8	7,015.5	39.7
Pretax profit	TTB	2070.5	752.4	TTB	59.7	27.7	18.5	54.2	-115.9	TTB	34.6
Net profit	TTB	TTB	1021.1	TTB	59.1	25.0	2.0	55.0	-164.1	TTB	25.0
QoQ growth											
Sales	62.4	1.8	37.4	-19.0	15.8	-4.1	28.3	-13.6			
Operating profit	-781.3	-31.7	126.2	-85.4	599.7	-43.4	119.4	-79.5			
Pretax profit	-450.0	-28.8	127.3	-81.6	436.1	-43.1	111.0	-76.0			
Net profit	-361.6	-27.5	158.7	-84.1	435.5	-43.1	111.1	-75.9			

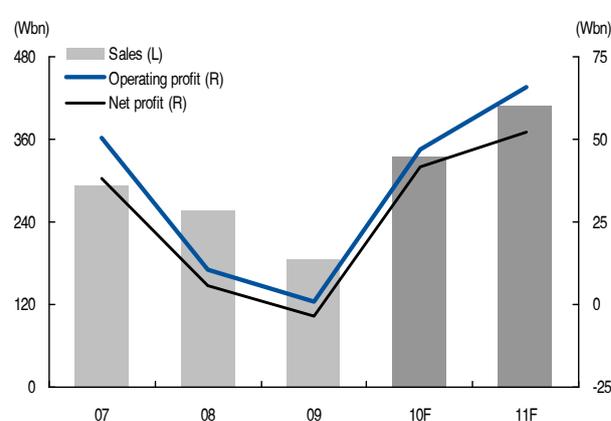
Note: Aggregate earnings of Hana Tour and Modetour Network; Source: Company data, Daewoo Securities Research

Figure 17. Travel sector's quarterly earnings trend and forecast



Source: Hana Tour, Modetour Network, Daewoo Securities Research

Figure 18. Travel sector's annual earnings trend and forecast



Source: Hana Tour, Modetour Network, Daewoo Securities Research

Modetour Network (080160 KQ/Buy)

Earnings to expand rapidly in 2011

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(Maintain)

Bloomberg: 080160 KQ

Target Price (12M, W): 56,000

Share Price (01/14/11, W): 40,650

Expected Return (%): 37.8

Sector: Travel

Sector Rating: Overweight

EPS Growth (11F, %): 31.0

Market EPS Growth (11F, %): 23.1

P/E (X): 14.4

Market P/E (01/14/11F, x): 10.3

Market Cap (Wbn): 341

Shares Outstanding (mn): 8

Avg Trading Volume (60D, '000): 68

Avg Trading Value (60D, Wbn): 3

Margin Balance ('000 sh): 90

Dividend Yield (11F, %): 2.2

Free Float (%): 77.0

52-Week Low/High: 24,550/40,650

Beta (12M, Daily Rate of Return): 1.1

Price Return Volatility (12M Daily,%,SD): 2.7

Foreign Ownership (%): 19.1

Major Shareholder(s):

JW Woo and et. al (18.72%)

Franklin Templeton Investment (8.56%)

NPS (5.67%)

Price Performance

(%)	1M	6M	12M
Absolute	13.7	6.8	40.7
Relative	9.8	-0.2	42.0

- The company will likely experience rapid growth in 2011
- Satisfactory 4Q10 earnings; Growth momentum to continue in 1Q11
- Maintain Buy rating; Raise TP to W56,000

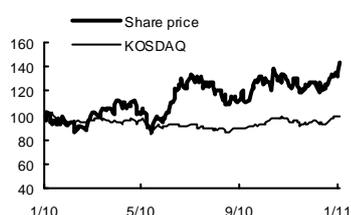
We maintain our Buy recommendation on Modetour Network and raise our target price to W56,000 from W51,000 (vs. current share price of W40,650). Our target price was derived by applying a target P/E multiple of 20.0x to 2011F EPS. The target multiple is equivalent to the mean of the average 2011F P/E of Modetour Network's global peer group and Hana Tour's 2006 average P/E (Hana Tour's outbound traveler market share exceeded 10% in 2006). The company's shares seem undervalued, currently trading below the average target P/E multiples of its domestic and global peers. Our investment recommendation is premised on the following.

1) Growth momentum to continue in 1Q11: Modetour Network delivered strong 4Q10 operating results in line with market expectations. Sales and operating profit both expanded 77.5% YoY, swinging to positive territory. Despite year-end incentive payments to employees, faster-than-expected top-line growth and high operating leverage on the back of the company's low fixed cost structure led to robust earnings, in our view. Modetour Network's earnings will likely remain strong in 1Q11, already approaching the record high set in 3Q10. January, February, and March package bookings have risen 32%, 36%, and 33% YoY, respectively. In 1Q11, sales and operating profit should expand 37.4% and 90.2% YoY, respectively.

2) Focus on core business areas: Modetour Network's 2011 operations will likely be heavily focused on outbound travel, the company's main business area. We anticipate that the company will remain conservative in its operations, refraining from making large-scale investments and instead beefing up its main businesses. Given that the company still has ample room for growth in the existing market (its market share of total outbound travelers is only 8%), conservative business strategies should help maximize its profits (thanks to the company's high operating leverage resulting from a low fixed cost structure). 2011 Sales and operating profit are forecast to jump 29.8% and 54.4% YoY, respectively.

3) Rapid growth in 2011: We believe that Modetour Network is set to enter a rapid growth stage. Hana Tour Service saw its outbound traveler market share surge from 7.9% (2005) to 11.3% (2006), as the industry experienced a boom on won appreciation (the W/US\$ rate fell below W1,000). At the time, Hana Tour's earnings expanded markedly and its shares outperformed the market strongly. Modetour Network is estimated to have recorded an outbound traveler market share of 8.7% in 2010, solidifying its market status. In 2011, we expect the company to grow considerably, as the W/US\$ rate will likely fall below W1,000.

Share Price



Earnings & Valuation Metrics

FY	Sales (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (W)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/08	83	1	1.1	1	74	2	-6	1.2	139.8	1.8	34.8
12/09	61	0	0.4	1	144	1	5	2.4	193.1	4.7	209.8
12/10F	117	20	16.7	18	2,149	20	21	30.6	16.5	4.4	11.4
12/11F	152	30	19.8	24	2,815	31	24	30.7	14.4	4.0	8.4
12/12F	187	47	25.1	39	4,609	47	39	37.9	8.8	2.9	4.8

Source: Company data, Daewoo Securities Research estimates

Table 4. Modetour Network's quarterly and annual earnings trend and forecast

(Wbn, %, '000 person, W)

	1Q10	2Q10	3Q10	4Q10P	1Q11F	2Q11F	3Q11F	4Q11F	2009	2010P	2011F
Sales	25.0	26.3	36.5	29.2	34.4	32.9	46.1	38.6	61.4	117.0	151.9
Air ticket	4.9	5.5	6.0	6.4	6.9	6.9	9.5	8.8	19.4	22.9	32.1
Package	19.0	19.6	29.1	21.1	26.5	25.1	35.6	28.6	38.8	88.8	115.7
Others	1.1	1.3	1.3	1.7	0.9	1.0	1.0	1.1	3.2	5.3	4.0
Sales breakdown											
Air ticket	19.8	20.8	16.5	22.0	20.2	20.8	20.7	22.8	31.5	19.6	21.2
Package	76.0	74.4	79.9	72.1	77.1	76.2	77.2	74.3	63.2	75.9	76.2
Others	4.3	4.8	3.5	5.8	2.7	3.0	2.1	2.9	5.2	4.6	2.6
Operating profit	4.7	4.8	8.4	1.7	8.9	5.6	11.7	3.9	0.2	19.5	30.1
OP margin	18.6	18.1	23.0	5.9	25.8	17.1	25.4	10.2	0.4	16.7	19.8
Pretax profit	5.2	4.6	8.8	2.0	9.5	5.6	12.2	4.2	1.5	20.6	31.5
Pretax margin	21.0	17.5	24.0	6.7	27.7	17.1	26.4	10.9	2.5	17.6	20.8
Net profit	4.0	3.5	9.1	1.5	7.1	4.2	9.1	3.2	1.2	18.1	23.6
Net margin	15.9	13.3	25.0	5.0	20.8	12.8	19.8	8.2	2.0	15.4	15.6
YoY growth											
Sales	91.8	87.5	104.5	77.5	37.4	25.0	26.4	31.9	-26.3	90.7	29.8
Air ticket	17.6	34.2	14.7	10.5	40.6	25.4	58.3	36.6	-25.5	18.2	40.5
Package	133.0	116.3	147.8	114.2	39.4	27.9	22.0	35.8	-27.9	128.8	30.3
Operating profit	1,331.5	1,609.5	2,047.3	TTB	90.2	18.0	39.9	129.1	-74.3	8,163.4	54.4
Pretax profit	662.2	706.3	1,362.4	TTB	81.7	21.7	38.9	115.4	19.7	1,263.9	53.2
Net profit	668.5	730.2	2,026.2	TTB	79.8	20.7	0.1	115.4	1,387.3	31.0	63.7
Key factors											
National outbound travelers	2,977	2,957	3,473	3,229	3,798	3,381	3,970	3,548	9,494	12,635	14,698
Modetour Network's outbound travelers	265	258	301	277	361	338	408	365	665	1,100	1,472
Market share	8.9	8.7	8.7	8.6	9.5	10.0	10.3	10.3	7.0	8.7	10.0
W/US\$ (average)	1,144	1,166	1,183	1,118	1,080	1,050	1,020	980	1,278	1,153	1,033

Source: Company data, Daewoo Securities Research

Table 5. 2010~2011 Earnings forecast revision

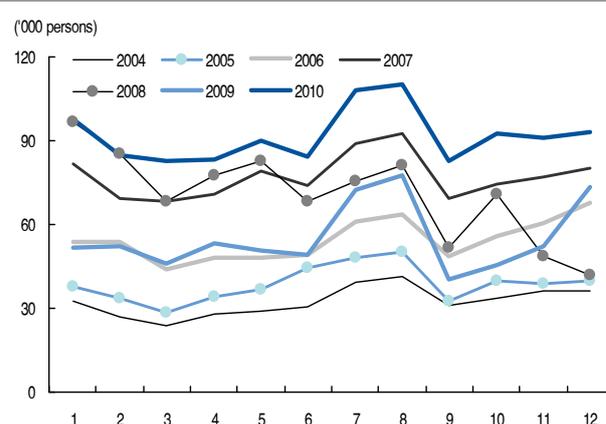
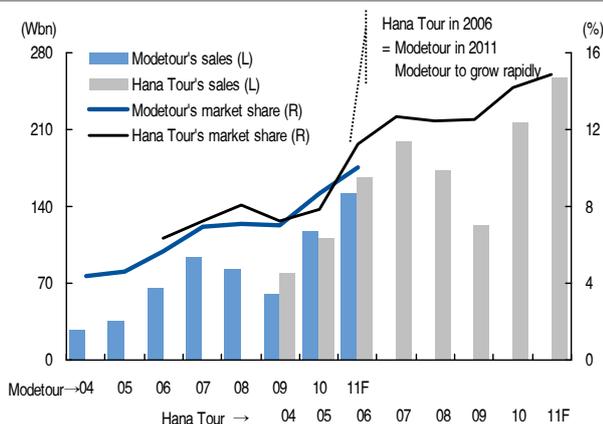
(Wbn, W, %)

	Previous		Revised		% Diff.	
	2010F	2011F	2010P	2011F	2010P	2011F
Sales	116	141	117	152	0.9	7.8
Operating profit	19	28	20	30	5.3	7.1
Net profit	18	22	18	24	0.0	9.1
EPS	2,145	2,578	2,149	2,815	0.2	9.2

Note: 2010 Earnings were announced on Jan 14, 2011; Source: Company data, Daewoo Securities Research

Figure 19. Growth trend comparison of Modetour Network and Hana Tour

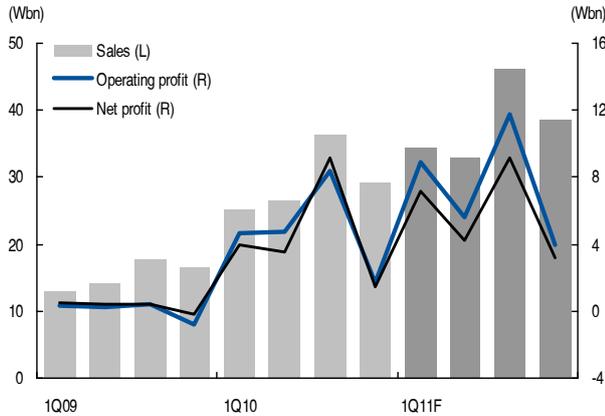
Figure 20. Yearly outbound traveler trend



Source: Company data, Daewoo Securities Research

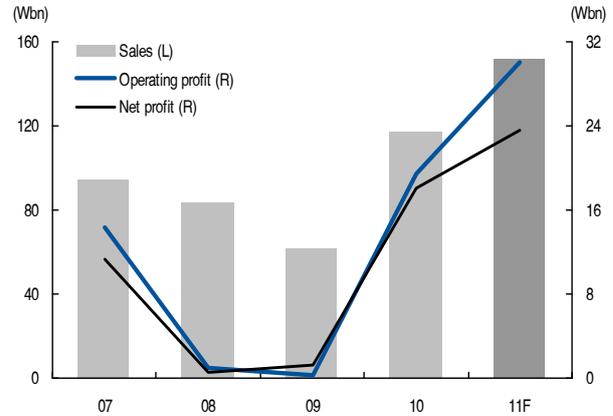
Source: Thomson Reuters, Company data, Daewoo Securities Research

Figure 21. Quarterly earnings trend and forecast



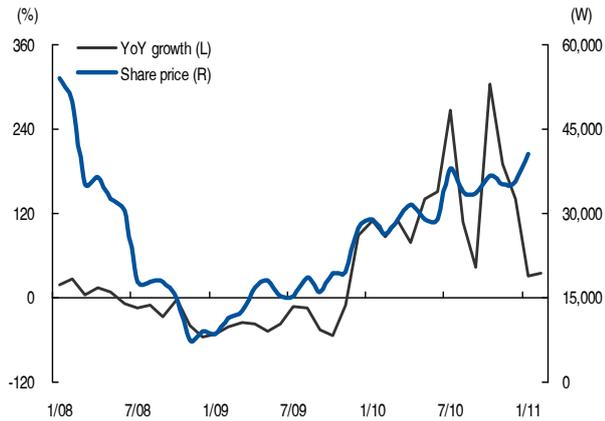
Source: Company data, Daewoo Securities Research

Figure 22. Annual earnings trend and forecast



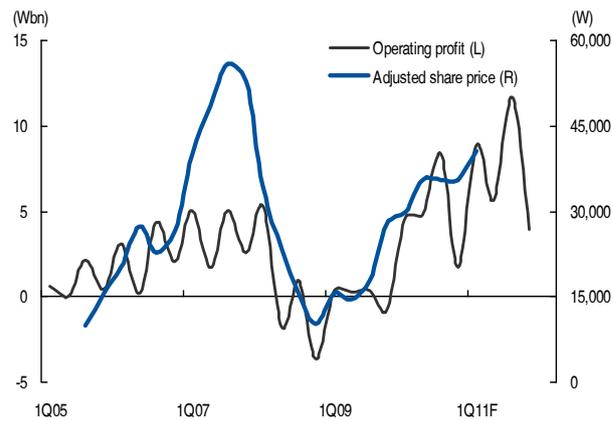
Source: Company data, Daewoo Securities Research

Figure 23. Package booking growth (YoY) and share performance



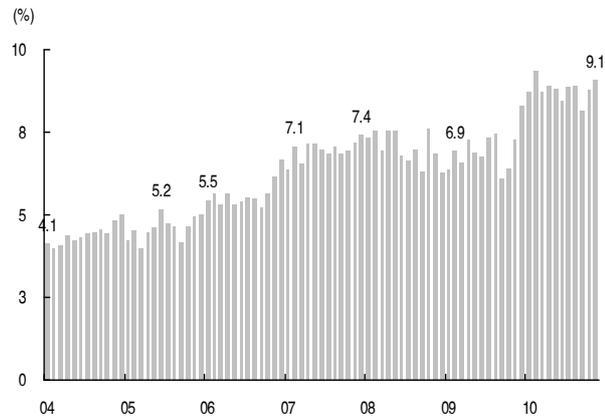
Source: Company data, Daewoo Securities Research

Figure 24. Quarterly operating profit and share performance



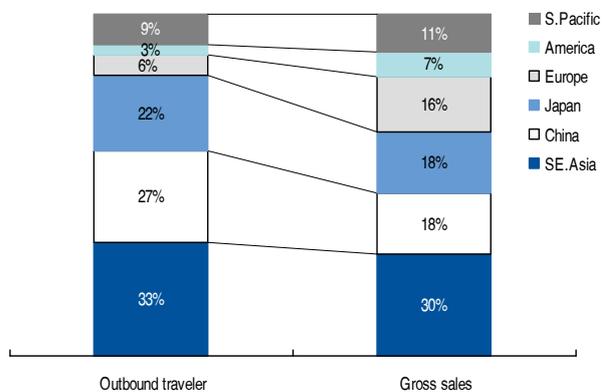
Note: One-off declines in every 4Q due to annual incentive payment;
Source: Company data, Daewoo Securities Research

Figure 25. Monthly market share in terms of outbound traveler



Source: Company data, Daewoo Securities Research

Figure 26. Breakdown of outbound travelers and gross sales by destination



Note: As of 2010;
Source: Company data, Daewoo Securities Research

Modetour Network (080160 KQ/Buy/TP: W56,000)

Income Statement (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Sales	61	117	152	187
Cost of Goods Sold	0	0	0	0
Gross Profit	61	117	152	187
SG&A	61	98	122	140
Operating Profit	0	20	30	47
Non-Operating Income	1	1	1	2
Interest Income/Expense	2	2	3	3
F/X-Related Gain/Loss	0	0	0	0
Equity Method Gain/Loss	-1	0	0	0
Asset Disposal Gain/Loss	0	0	0	0
Other Non-Operating Profit/Loss	0	-2	-1	-2
Pretax Profit	1	21	32	48
Tax	0	3	8	10
Profit from Continuing Operation	1	18	24	39
Profit from Discontinued Operation	0	0	0	0
Tax Effect	0	0	0	0
Net Profit	1	18	24	39
Residual Income	1	18	24	39
EBITDA	1	20	31	47
Free Cash Flow	5	21	24	39
Gross Profit Margin (%)	100.0	100.0	100.0	100.0
EBITDA Margin (%)	1.5	17.3	20.2	25.2
Operating Margin (%)	0.4	16.7	19.8	25.1
Net Margin (%)	2.0	15.4	15.6	20.7

Cash Flow (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Cash Flow from Operating Activities	5	22	24	39
Net Profit	1	18	24	39
Non-Cash Income and Expense	4	2	1	0
Tangible Assets Depreciation	1	1	1	0
Intangible Assets Depreciation	0	0	0	0
Others	3	1	0	0
Chg in Working Capital	0	2	0	0
Chg in Accounts Receivable	-7	-6	-5	-5
Chg in Inventories	0	0	0	0
Chg in Accounts Payable	0	0	0	0
Others	7	8	5	5
Cash Flow from Investment Activities	0	8	-19	-24
Chg in Tangible Assets	0	-1	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Investment Assets	1	0	-2	-2
Others	0	9	-16	-22
Cash Flow from Financing Activities	0	-2	-4	-6
Chg in Borrowings	0	-1	2	1
Chg in Equity	0	0	-5	-7
Dividends	0	0	-5	-7
Others	0	0	0	0
Chg in Cash	5	29	2	9
Beginning Cash Balance	12	17	46	48
Ending Cash Balance	17	46	48	57

Source: Company data, Daewoo Securities Research estimates

Balance Sheet (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Current Assets	78	102	132	176
Cash and Cash Equivalents	17	46	48	57
Accounts Receivable	11	17	22	27
Inventories	0	0	0	0
Other Current Assets	51	40	63	92
Non-Current Assets	8	8	10	12
Investment Assets	7	7	9	11
Property, Plant and Equipment	1	1	1	0
Intangible Assets	0	0	0	0
Total Assets	86	111	143	187
Current Liabilities	31	38	50	61
Accounts Payable	0	0	0	0
Short-Term Debt	0	0	0	0
Current Long-Term Debt	0	0	0	0
Other Current Liabilities	31	38	50	61
Non-Current Liabilities	5	5	6	8
Bonds	0	0	0	0
Long-Term Debt	0	0	0	0
Other Non-Current Liabilities	5	5	6	8
Total Liabilities	36	43	56	69
Paid-In Capital	4	4	4	4
Capital Surplus	30	30	30	30
Retained Earnings	24	42	60	92
Stockholders' Equity	50	68	86	118

Forecasts/Valuations (Summarized)				
	12/09	12/10F	12/11F	12/12F
P/E (x)	193.1	16.5	14.4	8.8
P/CF (x)	125.5	15.9	13.2	8.2
P/B (x)	4.7	4.4	4.0	2.9
EV/EBITDA (x)	209.8	11.4	8.4	4.8
EPS (W)	144	2,149	2,815	4,609
CFPS (W)	222	2,237	2,877	4,641
BPS (W)	5,981	8,082	10,275	14,047
DPS (W)	50	650	875	1,450
Payout Ratio (%)	33.1	29.0	29.8	30.1
Dividend Yield (%)	0.2	1.6	2.2	3.6
Sales Growth (%)	-26.3	90.7	29.8	23.1
EBITDA Growth (%)	-49.5	2,175.6	51.4	53.7
Operating Profit Growth (%)	-74.3	8,163.4	54.4	55.4
EPS Growth (%)	96.0	1,387.3	31.0	63.7
Accounts Receivable Turnover (x)	8.4	8.6	7.9	7.7
Inventory Turnover (x)	-	-	-	-
Accounts Payable Turnover (x)	-	-	-	-
ROA (%)	1.5	18.4	18.7	23.5
ROE (%)	2.4	30.6	30.7	37.9
ROIC (%)	-	-	-	-
Liability to Equity Ratio (%)	71.5	62.8	65.1	58.6
Current Ratio (%)	252.1	270.0	265.5	286.0
Net Debt to Equity Ratio (%)	-	-	-	-
Interest Coverage Ratio (x)	-	-	-	-

Hana Tour (039130 KQ/Buy)

Top travel agency in Korea

Jee-Hyun Moon +822-768-3615
jeehyun.moon@dwsec.com

(Maintain)

Bloomberg: 039130 KQ

Target Price (12M, W): 60,000

Share Price (01/14/11, W): 49,300

Expected Return (%): 21.7

Sector: Travel

Sector Rating: Overweight

EPS Growth (11F, %): 20.4

Market EPS Growth (11F, %): 23.1

P/E (X): 20.1

Market P/E (01/14/11F, x): 10.3

Market Cap (Wbn): 573

Shares Outstanding (mn): 12

Avg Trading Volume (60D, '000): 97

Avg Trading Value (60D, Wbn): 4

Margin Balance ('000 sh): 243

Dividend Yield (11F, %): 1.8

Free Float (%): 74.0

52-Week Low/High: 42,750/56,800

Beta (12M, Daily Rate of Return): 0.9

Price Return Volatility (12M Daily,%,SD): 2.1

Foreign Ownership (%): 22.8

Major Shareholder(s):

SH Park and et. al (20.59%)

Fidelity Funds and et. al (6.07%)

SIMSL and et. al (5.51%)

Price Performance

(%)	1M	6M	12M
Absolute	7.4	-13.2	-3.0
Relative	3.5	-20.3	-1.6

- Favorable market conditions and strong 1Q earnings momentum
- Attractive valuation
- Maintain Buy rating with TP of W60,000

We maintain our Buy rating on Hana Tour but lower our target price from W67,000 to W60,000 (vs. current share price of W49,300). We derived our target price by applying a target P/E multiple of 24.4x to 2011F EPS. Our target multiple is equivalent to the mean of Hana Tour's average P/Es in 2006 (market boom) and 2007 (when Hana Tour experienced market share expansion similar to 2011 projections) and the 2011F P/E of the company's global peer group. Our investment recommendation is premised on the following.

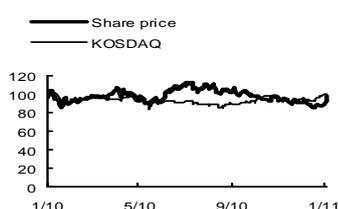
1) Attractive valuation: Shares are advancing from the low end of Hana Tour's historic P/E ratios, currently trading below the 2006–2008 average P/E of 33.6x (when the travel industry experienced a boom).

2) Favorable market conditions: We believe that Hana Tour is set to enter a stable growth phase, given that the W/US\$ rate is projected to fall below W1,000, and airline seat supply will likely ease. Hana Tour, the largest travel agency in Korea by market share, should be a key beneficiary of the market upswing.

3) Strong 1Q earnings momentum: We expect Hana Tour's 4Q10 sales and operating profit to both jump 87.3% YoY, swinging back into profit. However, these operating results should still fall short of market expectations, due to year-end incentive payments to employees and higher fixed costs (YoY). In 1Q11, sales and operating profit should expand 27.7% and 40.7% YoY, respectively, as outbound travel demand is forecast to rise during the long Lunar New Year holidays in February. January, February, and March package bookings have risen 25%, 74%, and 27% YoY, respectively.

Hana Tour is leading Korea's travel market growth. 1) For overseas outbound travel, Hana Tour has adopted brand segmentation strategies to meet varying customer demands. The company offers ultra high-end tours (Zeus brand), mid-end packaged tours (Hana Tour brand), and low-end tours (Web Tour brand) reserved mostly online. 2) For domestic inbound travel, Hana Tour is developing tourism resources, creating theme products in partnership with local travel agencies, and planning to build hotels within the four main gates of old Seoul. 3) Hana Tour is expanding its online business, upgrading its online reservation system, and displaying a reservation box on the front page of its website. However, these investments will inevitably result in fixed cost increases.

Share Price



Earnings & Valuation Metrics

FY	Sales (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (W)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/08	173	10	5.7	5	433	13	8	5.3	53.8	3.3	16.5
12/09	124	0	0.3	-5	-416	3	11	-5.4	-	6.9	159.5
12/10F	217	28	12.7	24	2,041	31	36	23.6	24.2	5.5	15.8
12/11F	257	36	13.8	29	2,457	38	36	23.9	20.1	4.6	12.0
12/12F	293	44	14.9	33	2,858	46	40	23.7	17.3	3.9	9.4

Source: Company data, Daewoo Securities Research estimates

Table 6. Hana Tour's quarterly and annual earnings trend and forecast (Wbn, %'000 person, W)

	1Q10	2Q10	3Q10	4Q10F	1Q11F	2Q11F	3Q11F	4Q11F	2009	2010F	2011F
Sales	48.5	48.5	65.8	53.9	61.9	59.4	72.3	63.8	123.9	217.1	257.4
Air ticket	5.5	6.4	6.0	7.9	9.1	8.9	10.7	11.1	29.9	25.9	40.0
Package	38.9	37.3	55.3	43.6	49.7	47.0	58.6	50.1	83.7	175.0	205.5
Others	4.1	4.7	4.5	2.4	3.1	3.4	3.0	2.5	7.3	11.1	8.6
Sales breakdown											
Air ticket	11.4	13.2	9.2	14.7	14.8	15.1	14.8	17.5	24.3	11.9	15.5
Package	80.2	77.1	83.9	80.8	80.3	79.2	81.1	78.6	67.8	80.8	79.8
Others	8.4	9.7	6.9	4.5	4.9	5.8	4.1	3.9	5.9	5.1	3.4
Operating profit	9.0	4.5	12.4	1.4	12.6	6.5	14.9	1.5	0.4	27.5	35.6
OP margin	18.5	9.4	18.8	2.5	20.4	11.0	20.6	2.4	0.3	12.7	13.8
Pretax profit	9.2	5.7	14.1	2.1	13.6	7.5	15.6	2.4	-3.0	31.9	39.1
Pretax margin	19.0	11.7	21.4	3.8	21.9	12.7	21.5	3.8	0.9	14.3	15.2
Net profit	6.7	4.3	10.5	1.5	9.9	5.5	11.4	1.8	-4.8	23.7	28.5
Net margin	13.9	8.8	16.0	2.8	16.0	9.2	15.7	2.8	-3.9	10.9	11.1
YoY growth											
Sales	60.4	64.1	89.0	87.3	27.7	22.6	9.9	18.2	-28.3	75.2	18.6
Air ticket	-19.9	-6.2	-23.3	-5.2	65.5	40.0	77.7	40.9	-24.4	-13.6	54.5
Package	81.4	86.8	124.4	147.2	27.9	25.9	6.1	15.1	-31.9	109.2	17.4
Operating profit	TTB	TTB	655.7	TTB	40.7	43.8	20.8	12.7	-95.7	6,380.9	29.2
Pretax profit	TTB	TTB	556.9	TTB	47.3	32.6	10.4	17.8	TTR	TTB	25.9
Net profit	TTB	TTB	673.8	TTB	47.0	28.5	7.6	17.8	TTR	TTB	20.4
Key factors											
National outbound travelers	2,977	2,957	3,473	3,229	3,798	3,381	3,970	3,548	9,494	12,635	14,698
Hana Tour's outbound travelers	421	413	500	463	544	504	598	537	1,188	1,797	2,183
Market share	14.1	14.0	14.4	14.3	14.3	14.9	15.1	15.1	12.5	14.2	14.9
W/US\$ (average)	1,144	1,166	1,183	1,118	1,080	1,050	1,020	980	1,278	1,153	1,033

Source: Company data, Daewoo Securities Research

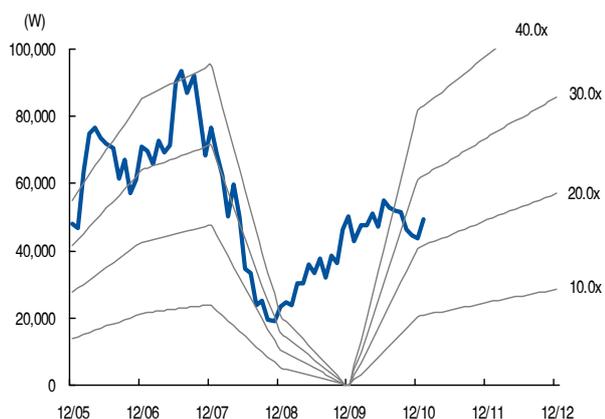
Table 7. 2010-2011 Earnings forecast revision

(Wbn, W, %)

	Previous		Revised		% Diff.	
	2010F	2011F	2010F	2011F	2010F	2011F
Sales	216	256	217	257	0.5	0.4
Operating profit	28	37	28	36	0.0	-2.7
Net profit	24	29	24	29	0.0	0.0
EPS	2,094	2,522	2,041	2,457	-2.5	-2.6

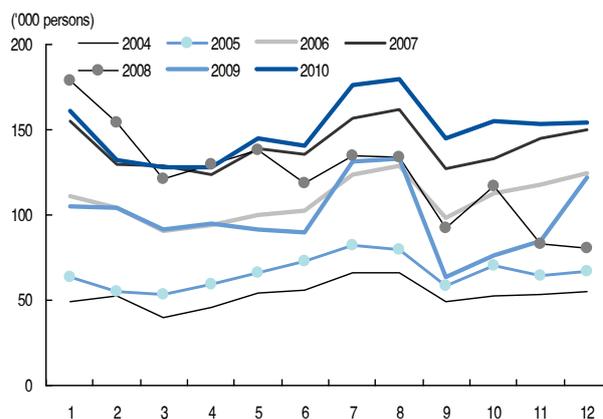
Source: Daewoo Securities Research

Figure 27. Forward P/E ratio trend



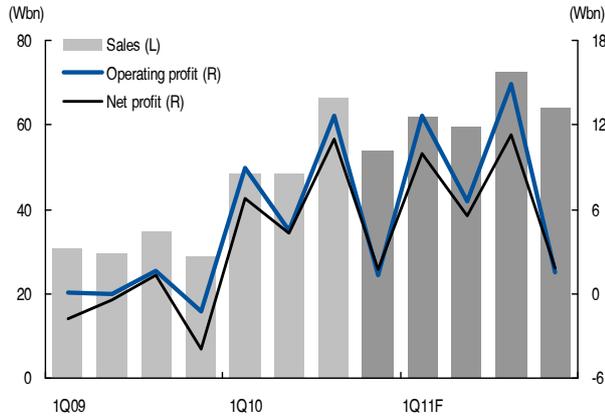
Source: Daewoo Securities Research

Figure 28. Annual outbound traveler trend



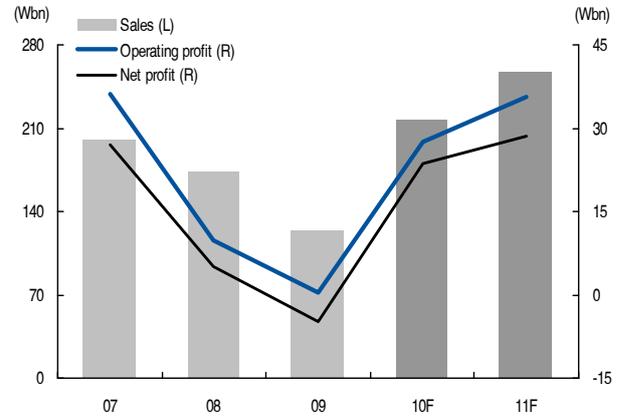
Source: Company data, Daewoo Securities Research

Figure 29. Quarterly earnings trend and forecast



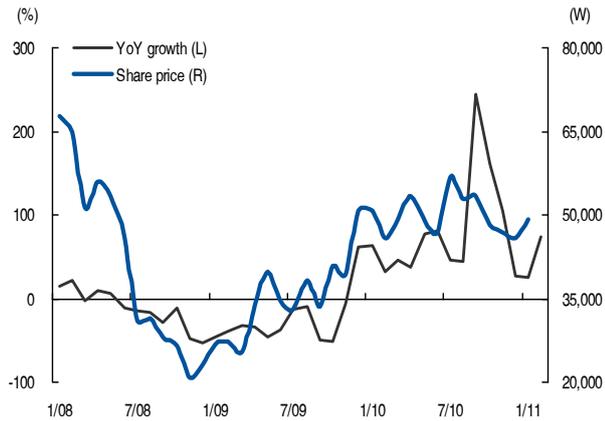
Source: Company data, Daewoo Securities Research

Figure 30. Annual earnings trend and forecast



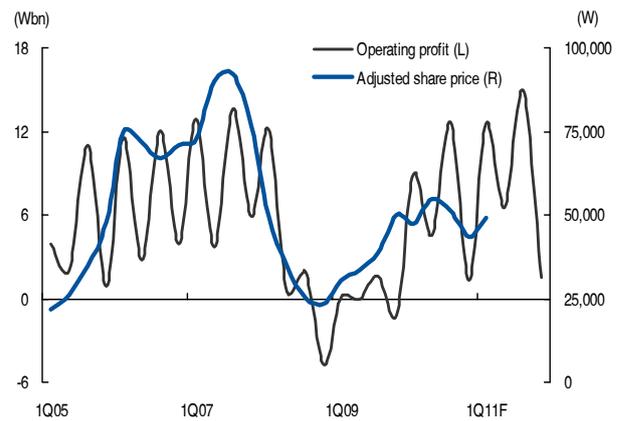
Source: Company data, Daewoo Securities Research

Figure 31. Package booking growth (YoY) and share performance



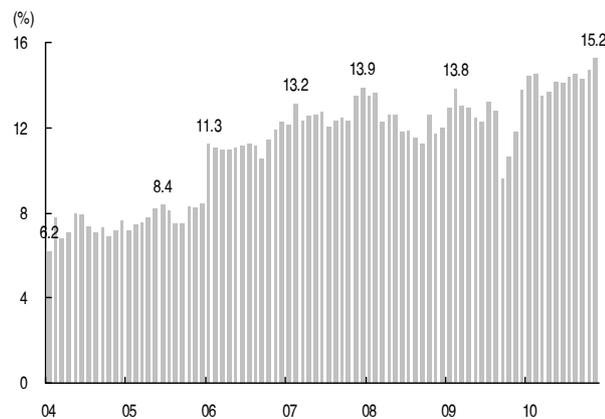
Source: Company data, Daewoo Securities Research

Figure 32. Quarterly operating profit and share performance



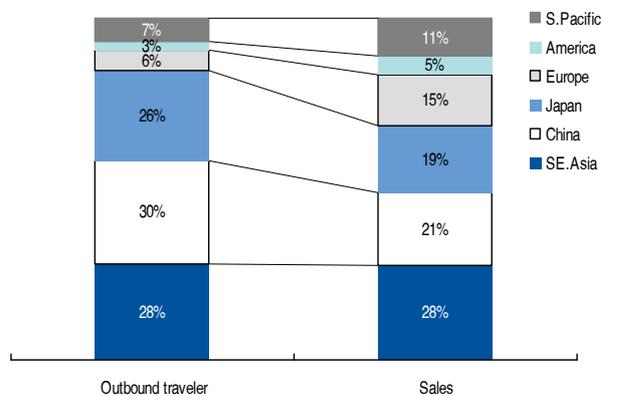
Note: One-off declines in 4Q due to annual incentive payments;
Source: Company data, Daewoo Securities Research

Figure 33. Monthly market share in terms of outbound travelers



Source: Company data, Daewoo Securities Research

Figure 34. Breakdown of outbound travelers and sales by destination



Note: As of 2010
Source: Company data, Daewoo Securities Research

Hana Tour (039130 KQ/Buy/TP: W60,000)

Income Statement (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Sales	124	217	257	293
Cost of Goods Sold	0	0	0	0
Gross Profit	124	217	257	293
SG&A	123	190	222	249
Operating Profit	0	28	36	44
Non-Operating Income	-3	4	3	2
Interest Income/Expense	3	2	2	2
F/X-Related Gain/Loss	0	0	0	0
Equity Method Gain/Loss	-6	2	0	0
Asset Disposal Gain/Loss	0	0	0	0
Other Non-Operating Profit/Loss	0	0	2	-1
Pretax Profit	-3	32	39	45
Tax	2	8	11	12
Profit from Continuing Operation	-5	24	29	33
Profit from Discontinued Operation	0	0	0	0
Tax Effect	0	0	0	0
Net Profit	-5	24	29	33
Residual Income	-5	24	29	33
EBITDA	3	31	38	46
Free Cash Flow	11	36	36	40
Gross Profit Margin (%)	100.0	100.0	100.0	100.0
EBITDA Margin (%)	2.6	14.1	14.8	15.6
Operating Margin (%)	0.3	12.7	13.8	14.9
Net Margin (%)	-3.9	10.9	11.1	11.3

Cash Flow (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Cash Flow from Operating Activities	11	38	36	40
Net Profit	-5	24	29	33
Non-Cash Income and Expense	19	6	3	2
Tangible Assets Depreciation	1	1	1	1
Intangible Assets Depreciation	2	2	1	1
Others	16	3	0	0
Chg in Working Capital	-3	8	5	5
Chg in Accounts Receivable	-8	-3	-4	-4
Chg in Inventories	0	0	0	0
Chg in Accounts Payable	-4	-4	4	4
Others	10	15	5	5
Cash Flow from Investment Activities	13	0	-15	-13
Chg in Tangible Assets	0	-1	0	0
Chg in Intangible Assets	-1	-2	0	0
Chg in Investment Assets	-2	-2	-1	-1
Others	17	5	-15	-12
Cash Flow from Financing Activities	-6	-7	-10	-11
Chg in Borrowings	0	-1	0	0
Chg in Equity	-7	-7	-10	-11
Dividends	-5	-7	-10	-11
Others	1	0	0	0
Chg in Cash	19	30	11	17
Beginning Cash Balance	19	38	68	78
Ending Cash Balance	38	68	78	95

Source: Company data, Daewoo Securities Research estimates

Balance Sheet (Summarized)				
(Wbn)	12/09	12/10F	12/11F	12/12F
Current Assets	105	127	160	197
Cash and Cash Equivalents	38	68	78	95
Accounts Receivable	21	24	28	31
Inventories	0	0	0	0
Other Current Assets	47	35	54	70
Non-Current Assets	57	61	59	57
Investment Assets	21	24	25	25
Property, Plant and Equipment	31	31	30	29
Intangible Assets	6	5	4	3
Total Assets	162	187	219	254
Current Liabilities	71	77	90	103
Accounts Payable	27	24	28	32
Short-Term Debt	0	0	0	0
Current Long-Term Debt	0	0	0	0
Other Current Liabilities	44	53	62	71
Non-Current Liabilities	0	0	0	0
Bonds	0	0	0	0
Long-Term Debt	0	0	0	0
Other Non-Current Liabilities	0	0	0	0
Total Liabilities	71	77	90	103
Paid-In Capital	6	6	6	6
Capital Surplus	72	82	82	82
Retained Earnings	21	38	56	79
Stockholders' Equity	91	110	129	151

Forecasts/Valuations (Summarized)				
	12/09	12/10F	12/11F	12/12F
P/E (x)	-	21.3	20.1	17.3
P/CF (x)	-154.7	20.4	17.6	15.2
P/B (x)	6.9	4.8	4.6	3.9
EV/EBITDA (x)	159.5	13.7	12.0	9.4
EPS (W)	-416	2,041	2,457	2,858
CFPS (W)	-325	2,139	2,552	2,944
BPS (W)	7,334	9,010	10,738	12,767
DPS (W)	500	900	900	1,050
Payout Ratio (%)	-111.7	25.6	34.8	34.9
Dividend Yield (%)	1.0	1.8	1.8	2.1
Sales Growth (%)	-28.3	75.2	18.6	13.9
EBITDA Growth (%)	-74.3	837.0	24.6	19.8
Operating Profit Growth (%)	-95.7	6,380.9	29.2	22.5
EPS Growth (%)	TTR	TTB	20.4	16.3
Accounts Receivable Turnover (x)	7.3	9.8	10.1	9.9
Inventory Turnover (x)	-	-	-	-
Accounts Payable Turnover (x)	4.2	8.5	10.0	9.9
ROA (%)	-3.1	13.6	14.1	14.0
ROE (%)	-5.4	23.6	23.9	23.7
ROIC (%)	-	-	-	-
Liability to Equity Ratio (%)	78.5	69.8	70.1	68.0
Current Ratio (%)	147.6	164.9	178.0	191.8
Net Debt to Equity Ratio (%)	-	-	-	-
Interest Coverage Ratio (x)	-	-	-	-

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Buy	Relative performance of +20% or greater
Trading Buy	Relative performance of +10% or greater, but with volatility
Hold	Relative performance of -10% and +10%
Sell	Relative performance of -10%

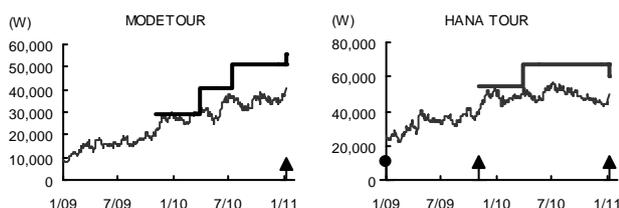
Industry Ratings

Overweight	Fundamentals are favorable or improving
Neutral	Fundamentals are steady without any material changes
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* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

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