

Modetour Network (080160 KQ)

Leisure

Expecting stable earnings growth in 4Q

Lower TP to W35,000; Maintain Buy call

We trim our target price for Modetour Network to W35,000, from W53,000. We cut our 2011 and 2012 EPS estimates by 6.8% and 23.5%, respectively, as: 1) our F/X rate assumption was lowered to reflect expectations of a global slump, and 2) the company's 3Q revenues and operating profit results fell below both our and market estimates.

However, we maintain our Buy call on Modetour Network, the second-largest travel company in Korea, considering that: 1) the travel industry environment is turning favorable for Top-tier companies (e.g, a surge in the number of airline seats available for travel agencies compared to during the 2008 slump; Korean Air and Asiana Airlines' zero-commission policies), 2) negatives such as 3Q earnings deterioration and surging US\$/W rates have already been priced in, and 3) Modetour's earnings are expected to improve YoY in 4Q11. We arrived at our target price by applying a P/E of 16.8x (the average of industry leader Hana Tour's 2011F P/E and the global travel industry's 2011F P/E) to Modetour's 2011F EPS.

3Q11 Review: Both revenues and operating profit fell below expectations

Modetour's 3Q revenues and operating profit were weaker than expected. Revenues inched up only 0.1% YoY, while operating profit deteriorated 10.3% YoY. These lackluster results stem from: 1) the fact that YoY outbound traveler growth was minimal due to a high base effect, and 2) the fact that air ticket-related revenues plunged 48.5% YoY owing to Korean Air and Asiana Airlines' zero-commission policies. Personnel expenses climbed 18.9% YoY due to Chuseok holiday bonus payments, etc. (which also eroded operating profit).

Earnings to rebound (on a YoY basis) in 4Q

Modetour's earnings are projected to grow YoY in 4Q, with revenues of W30.1bn (up 3.1% YoY) and an operating profit of W4.6bn (up 162.8% YoY). As of now, 4Q bookings for outbound tour packages are estimated to have expanded 17% YoY. In addition, cost burdens (e.g., bonus payments) are likely to ease YoY in 4Q. The outbound travel market rebounded and grew dramatically in 2010 and is stabilizing this year. The industry structure is turning increasingly favorable to Top-tier companies. Of particular note, Modetour's conservative stance is gaining traction.

► Earnings & Valuation Metrics

FY	Revenues (Wbn)	OP (Wbn)	OP Margin (%)	NP (Wbn)	EPS (Won)	EBITDA (Wbn)	FCF (Wbn)	ROE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
12/09	61	0	0.5	1	145	1	2	2.4	193.1	4.7	203.4
12/10	117	19	16.6	16	1,906	20	33	27.6	18.6	4.5	11.0
12/11F	127	21	16.8	18	2,087	22	17	24.8	13.5	3.1	6.7
12/12F	139	23	16.4	19	2,246	24	19	22.9	12.5	2.7	5.6
12/13F	160	29	18.1	24	2,825	29	25	24.2	10.0	2.2	3.8

Note: All figures are based on non-consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, KDB Daewoo Securities Research estimates

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Buy (Maintain)

Target Price (12M, W)	35,000
Share Price (10/12/11,W)	28,100
Expected Return (%)	24.6
EPS Growth (11F, %)	9.5
Market EPS Growth (11F, %)	4.7
P/E(11F, x)	13.5
Market P/E(11F, x)	9.8
KOSDAQ	467.65
Market Cap (Wbn)	236
Shares Outstanding (mn)	8
Avg Trading Volume (60D, '000)	123
Avg Trading Value (60D, Wbn)	4
Dividend Yield (11F, %)	2.4
Free Float (%)	77.0
52-Week Low	23,000
52-Week High	44,100
Beta (12M, Daily Rate of Return)	1.0
Price Return Volatility (12M Daily, %,SD)	3.3
Foreign Ownership (%)	10.5

Major Shareholder(s)

JW Woo and et. al. (18.75%)
Franklin Templeton (9.97%)
NPS (8.95%)

Price Performance

(%)	1M	6M	12M
Absolute	-12.7	-16.1	-20.5
Relative	-12.5	-2.7	-17.4

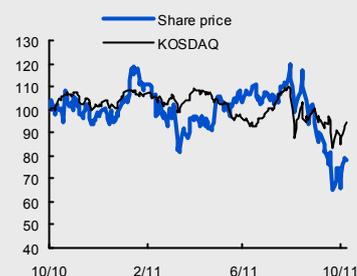


Table 1. Quarterly and annual earnings forecasts

(Wbn, %, '000 person, W, US\$)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11P	4Q11F	2010	2011F
Sales	25	27	37	29	34	26	37	30	117	127
Operating revenues	25	26	36	29	34	26	37	30	117	126
Air ticket	5	5	6	6	6	3	3	3	23	14
Package product	19	20	29	21	27	21	32	26	89	105
Others	1	1	1	2	2	2	2	2	5	7
Other revenues	0	0	0	0	0	0	0	0	0	1
Sales breakdown										
Air ticket	19.6	20.5	16.4	22.0	16.2	10.4	8.5	8.9	19.5	11.0
Package product	75.3	73.6	79.5	72.2	77.9	82.4	86.5	85.0	75.9	83.0
Others	4.2	4.7	3.5	5.9	5.3	6.0	4.7	5.5	4.6	5.3
Other revenues	0.8	1.2	0.6	0.0	0.5	1.2	0.3	0.7	0.0	0.7
Operating profit	5	5	8	2	8	2	7	5	19	21
OP margin	18.3	17.2	20.6	6.0	23.4	7.6	18.5	15.4	16.6	16.8
Net profit	4	4	6	2	6	2	5	4	16	18
NP margin	15.2	14.7	16.7	7.0	18.3	7.1	14.5	13.6	13.7	13.8
YoY growth										
Sales	93.4	89.8	105.7	77.8	35.0	-2.1	0.1	3.1	90.8	8.5
Operating revenues	91.8	87.5	104.5	77.8	35.4	-2.1	0.4	2.3	90.8	7.8
Air ticket	17.6	34.2	14.7	10.4	11.9	-50.4	-48.5	-58.4	18.1	-38.7
Package product	133.0	116.3	147.8	114.8	39.6	9.7	9.0	21.4	129.0	18.6
Others	56.6	39.7	58.1	115.1	69.5	24.6	33.1	-4.0	66.8	26.5
Operating profit	1,319.2	1,543.3	1,841.0	TTB	72.4	-56.9	-10.3	162.8		10.0
Net profit	644.2	828.5	1,328.3	TTB	61.8	-52.6	-12.9	99.7		9.5
Key factor										
Korean outbound travelers	2,977	2,957	3,473	3,082	3,228	2,936	3,632	3,243	12,488	13,039
Company's outbound travelers	265	258	301	276	304	277	329	313	1,100	1,223
Market share	8.9	8.7	8.7	9.0	9.4	9.4	9.1	9.7	8.8	9.4
F/X rates (W/US\$, average)	1,144	1,163	1,186	1,133	1,120	1,084	1,072	1,110	1,156	1,074
Oil price (Dubai)	76.0	78.1	74.1	84.5	100.6	110.8	102.0	98.0	78.2	102.3

Note: 1Q10, 2Q10, 3Q10 and 2011 data are based on non-consolidated K-IFRS

4Q10 data are parent-based under K-GAAP, as the company did not provide non-consolidated K-IFRS data for 4Q10; TTB refers to "turn to black"

Source: Company data, KDB Daewoo Securities Research

Table 2. 2011~2012F earnings revisions

(Wbn, W, %)

	Previous		Revised		Diff.	
	11F	12F	11F	12F	11F	12F
Revenues	137	165	127	139	-7.2	-15.9
Operating profit	23	31	21	23	-7.8	-25.5
Net profit	19	25	18	19	-6.9	-23.5
EPS	2,240	2,936	2,087	2,246	-6.8	-23.5
OP margin	16.9	18.6	16.8	16.4	-0.6	-11.8
NP margin	13.7	15	13.8	13.6	0.7	-9.3

Note: Based on non-consolidated K-IFRS

Source: KDB Daewoo Securities Research

Table 3. Global travel companies' earnings forecasts and valuations (2011F)

(Local currency, %, x)

Country	Company	Fiscal year	Sales	Operating profit	Net profit	Share price	ROE	EPS	EPSG	P/E	OP margin	Net margin
Korea	Hana Tour	201112	248	32	28	36,200	24.9	2,380	9.8	15.2	12.7	11.2
	Modetour Network	201112	127	21	18	28,100	24.8	2,087	9.5	13.5	16.8	13.8
	Average						24.9			14.3	14.1	12.0
China	Ctrip	201112	551	184	174	34.45	18.2	1.13	6.6	30.5	33.4	31.5
	Beijing Capital Tourism	201112	2,461	191	141	15.34	10.5	0.68	-15.5	22.4	7.8	5.7
	China CYTS Tours	201112	7,872	692	315	13.12	13.0	0.75	17.9	17.4	8.8	4.0
	Average						13.9			25.1	21.0	17.9
Japan	HIS	201110	375	9	8	2,281	13.9	252.90	142.3	9.0	2.3	2.2
	Kinki Nippon Tourist	201112	56	0	0	88	-	3.16	-5.1	27.8	0.7	0.5
	Average						13.9			18.4	2.3	2.2
U.S.	Priceline	201112	4,321	1,404	1,173	493.26	47.4	22.64	67.8	21.8	32.5	27.2
	Expedia	201112	3,937	885	540	28.23	18.7	1.95	14.6	14.5	22.5	13.7
	Travelzoo	201112	152	38	23	27.89	34.0	1.36	70.0	20.5	25.4	14.9
	Orbitz	201112	764	49	6	1.83	2.5	0.04	TTB	43.9	6.4	0.7
	Average						25.7			21.2	25.9	19.0
Europe	TUI Travel	201109	14,093	423	245	162.50	12.5	22.88	4.5	7.1	3.0	1.7
	Thomas Cook	201109	9,257	315	141	46.43	8.8	16.49	-30.7	2.8	3.4	1.5
	Average						10.6			5.3	3.2	1.7
Global	Average						18.7			18.4	13.5	10.1

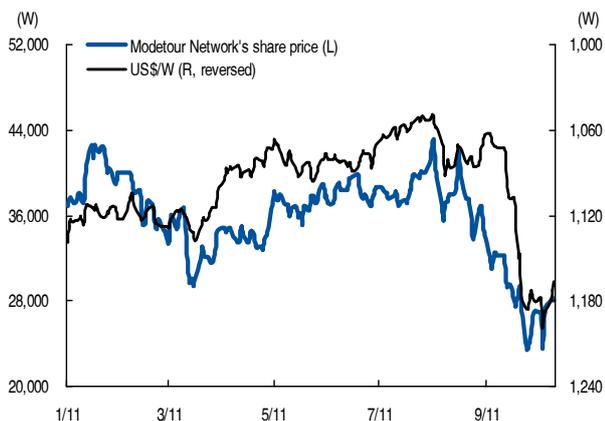
Note: 1) Korean companies' earnings are based on non-consolidated K-IFRS

2) Figures, excluding per share figures, are billion for Korean and Japanese companies, and million for others

3) Among Chinese companies, Ctrip is listed in the U.S.

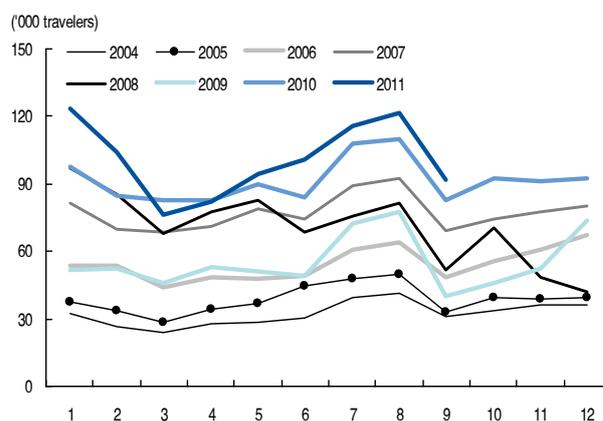
Source: Thomson Reuters, KDB Daewoo Securities Research

Figure 1. Daily US\$/W rate and Modetour Network's share price



Source: Thomson Reuters, KDB Daewoo Securities Research

Figure 2. Monthly Modetour Network's outbound travelers



Source: Company data, KDB Daewoo Securities Research

Modetour Network (080160 KQ/Buy/TP: W35,000)

Comprehensive Income Statement (Summarized)				
(Wbn)	12/10	12/11F	12/12F	12/13F
Revenues	117	127	139	160
Cost of Sales	0	0	0	0
Gross Profit	117	127	139	160
SG&A Expenses	98	106	116	131
Operating Profit (Adj)	19	21	23	29
Operating Profit	19	21	23	29
Non-Operating Profit	1	3	3	4
Net Financial Income	-2	-3	-3	-4
Net Gain from Inv in Associates	1	0	0	0
Pretax Profit	21	24	26	33
Income Tax	5	7	7	9
Profit from Continuing Operations	16	18	19	24
Profit from Discontinued Operations	0	0	0	0
Net Profit	16	18	19	24
Controlling Interests	16	18	19	24
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	16	18	19	24
Controlling Interests	16	18	19	24
Non-Controlling Interests	0	0	0	0
EBITDA	20	22	24	29
FCF (Free Cash Flow)	33	17	19	25
EBITDA Margin (%)	17.3	17.5	17.0	18.3
Operating Profit Margin (%)	16.6	16.8	16.4	18.1
Net Profit Margin (%)	13.7	13.8	13.6	14.9

Statement of Financial Condition (Summarized)				
(Wbn)	12/10	12/11F	12/12F	12/13F
Current Assets	114	129	148	175
Cash and Cash Equivalents	28	42	57	79
AR & Other Receivables	15	16	17	20
Inventories	0	0	0	0
Other Current Assets	18	19	21	24
Non-Current Assets	11	9	9	9
Investments in Associates	4	2	2	2
Property, Plant and Equipment	1	1	1	0
Intangible Assets	0	0	0	0
Total Assets	124	138	157	185
Current Liabilities	52	56	61	71
AP & Other Payables	30	33	36	41
Short-Term Financial Liabilities	0	0	0	0
Other Current Liabilities	22	23	25	29
Non-Current Liabilities	7	7	7	7
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	1	1	1	1
Total Liabilities	58	63	68	77
Controlling Interests	66	76	89	107
Capital Stock	4	4	4	4
Capital Surplus	30	30	30	30
Retained Earnings	40	50	64	82
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	66	76	89	107

Cash Flows (Summarized)				
(Wbn)	12/10	12/11F	12/12F	12/13F
Cash Flows from Op Activities	36	16	18	24
Net Profit	16	18	19	24
Non-Cash Income and Expense	3	6	5	6
Depreciation	1	1	1	0
Amortization	0	0	0	0
Others	-3	-2	0	0
Chg in Working Capital	18	-2	1	3
Chg in AR & Other Receivables	-1	-2	-1	-3
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	12	3	3	6
Income Tax Paid	0	-6	-7	-9
Cash Flows from Inv Activities	-25	3	3	4
Chg in PP&E	-1	-1	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	-22	1	0	0
Others	-2	3	3	4
Cash Flows from Fin Activities	0	0	-5	-6
Chg in Financial Liabilities	0	0	0	0
Chg in Equity	0	0	0	0
Dividends Paid	0	-5	-5	-6
Others	0	0	0	0
Increase (Decrease) in Cash	11	14	16	22
Beginning Balance	17	28	42	57
Ending Balance	28	42	57	79

Forecasts/Valuations (Summarized)				
	12/10	12/11F	12/12F	12/13F
P/E (x)	18.6	13.5	12.5	10.0
P/CF (x)	17.7	12.9	12.0	9.8
P/B (x)	4.5	3.1	2.7	2.2
EV/EBITDA (x)	11.0	6.7	5.6	3.8
EPS (W)	1,906	2,087	2,246	2,825
CFPS (W)	2,003	2,182	2,341	2,866
BPS (W)	7,839	9,009	10,613	12,749
DPS (W)	600	670	720	900
Payout ratio (%)	30.1	30.7	30.7	30.5
Dividend Yield (%)	1.7	2.4	2.6	3.2
Revenue Growth (%)	90.8	8.5	9.0	15.3
EBITDA Growth (%)	2,067.4	9.5	6.3	24.2
Operating Profit Growth (%)	6,835.0	10.0	6.6	27.1
EPS Growth (%)	1,219.2	9.5	7.6	25.8
Accounts Receivable Turnover (x)	9.6	8.9	8.9	9.1
Inventory Turnover (x)	-	-	-	-
Accounts Payable Turnover (x)	-	-	-	-
ROA (%)	15.2	13.4	12.8	13.9
ROE (%)	27.6	24.8	22.9	24.2
ROIC (%)	-245.1	-96.8	-92.6	-101.5
Liability to Equity Ratio (%)	88.4	82.8	76.2	72.2
Current Ratio (%)	219.6	230.1	241.7	248.4
Net Debt to Equity Ratio (%)	-	-	-	-
Interest Coverage Ratio (x)	-	-	-	-

Source: Company data, KDB Daewoo Securities Research estimates

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	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	
	Underweight	Fundamentals are unfavorable or worsening	

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