October 13, 2011 **Company Analysis / KOSDAQ**

Modetour Network (080160)

BUY (maintain)

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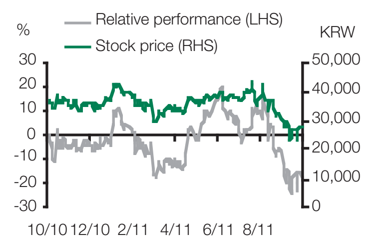
Current price (Oct 12)	KRW28,100
Fair value	**KRW41,000 (prev. KRW48,500)**
Reuters code	080160.KQ
Bloomberg code	080160 KS
Industry/Sector	Casinos, Leisure & Hotels
Rating	Overweight
Market cap	USD202.3mn
Ordinary shares issued	8,400,000shrs
Free float	74.9%
KOSPI	1809.5
KOSDAQ	467.65
Avg T/O Vol (60d)	122,668shrs
Avg T/O Val (60d)	USD3.5mn
Foreign ownership	10.0%
3yr CAGR of adj EPS (11~13)	15.2%
Market's 3yr CAGR of adj. EPS	12.7%
52wk high/low	KRW44,100 / KRW23,000
Beta (12M, daily return)	1.2
Major shareholders	Jong-Ung Woo etc. 18.8%

Price performance	1M	3M	6M
Absolute	-12.7%	-26.5%	-16.1%
Relative	-12.1%	-22.9%	-5.8%



Expectations Need to be Lowered

- 3Q11 OR remained flat YoY, but OP dipped 10%YoY
- Lackluster 3Q11 results attributable to delayed recovery in travel demand and increased labor costs
- Travel bookings continue to slump in 4Q11, confirming delayed recovery in travel demand
- Earnings forecasts revised down in view of still anemic travel demand
- BUY kept, but fair value trimmed to KRW41,000 in light of lowered earnings forecasts

3Q11 results sluggish, missing expectations

Modetour Network has released 3Q11 results showing that OR remained steady YoY, but OP, EBT, and NP slid 10%YoY, 10%YoY, and 13%YoY, respectively. Overall, 3Q11 results were lackluster and fell short of our estimates.

Main factors are delayed recovery in travel demand and increased labor expenses

The lackluster 3Q11 results stemmed from a failure of travel demand for other destinations to offset the nosedive in Japan-bound travel demand since the Mar earthquake. In 3Q11, the number of travelers to Japan slumped 73%YoY. Though travelers to Southeast Asia and the US jumped 49% and 28%, respectively, this was not sufficient to counter the sharp decline in travelers to Japan. Travelers to China and the South Pacific dipped 8% and 9%, respectively, leading to only a 7%YoY growth in the number of package-tour travelers and a 10%YoY growth in overall travelers.

FY-end	12/09A	12/10A	12/11F	12/12F	12/13F
(Reporting standard)	(GAAP-P)	(GAAP-P)	(IFRS-P)	(IFRS-P)	(IFRS-P)
OR (KRWbn)	61.4	117.1	134.1	168.7	183.4
OP (KRWbn)	0.2	19.4	19.3	29.2	27.9
NP (KRWbn)	1.2	16.0	16.7	24.8	24.4
Parent NP (KRWbn)	1.2	16.0	16.7	24.8	24.4
EPS (KRW)	151	1,991	2,073	3,079	3,041
Adj. EPS (KRW)	151	1,991	2,073	3,079	3,041
PER* (x)	187.5 - 52.3	19.6 - 12.3	13.6	9.1	9.2
PBR (x)	4.5	4.3	2.9	2.3	2.0
EV/EBITDA (x)	208.9	10.7	7.2	3.9	3.4
Div. Yield (%)	0.2	1.7	2.2	3.3	3.2
ROE (%)	2.4	27.6	21.5	28.3	23.1
ROIC (%)	8.1	NA	NA	NA	NA

Source: Company data, Hyundai Securities

Meanwhile, on the operating cost side, there were payments of performance-based bonuses and Chuseok (Korean Thanksgiving) bonuses totaling KRW1.1bn. Personnel expenses also increased slightly, leading to a YoY decline in OP.

Fig 1: 3Q11 results missed expectations

(KRWbn)	3Q11P	%YoY	%QoQ	3Q10A	2Q11A	HRC est.	%diff.
OR	36.7	0.1	42.4	36.7	25.8	39.3	(6.6)
OP	6.8	(10.3)	288.6	7.6	1.7	8.5	(20.6)
EBT	7.3	(9.9)	188.9	8.1	2.5	9.2	(20.4)
NP	5.3	(12.9)	187.0	6.1	1.9	6.9	(23.1)

Source: Company data, Hyundai Securities

4Q11 travel bookings still in a slump

The problems all boil down to the delayed recovery in travel demand. The sluggish pace of travel bookings in 3Q11 is expected to continue into 4Q11. As of Oct 11, travels bookings at Modetour grew 10% in Oct, 12% in Nov, and 24% in Dec. While we need to see how the Dec traveler numbers come out, chances are that we will see a gradual decline in growth over time. Traveler growth in the low 10% range is quite anemic compared to past averages.

Earnings estimates lowered in light of delayed recovery in travel demand

Although the traveler growth rate is currently off the trendline, we believe that travel demand will revert to the trend. As recovery will be very slow, however, we advise investors to lower their expectations for Modetour Network's earnings in 4Q11 and onward. We have revised down our estimates for Modetour Network's 2011-12 earnings considering slowed recovery in travel demand after the Fukushima earthquake.

Fig 2: 2011-12 earnings estimates lowered

	Revised		Previous		%change	
(KRWbn)	12/11F	12/12F	12/11F	12/12F	12/11F	12/12F
OR	134.1	168.7	138.3	191.0	(3.1)	(11.7)
OP	19.3	29.2	22.0	42.8	(12.3)	(31.7)
EBT	21.7	32.2	24.4	46.0	(11.2)	(30.0)
NP	16.7	24.8	18.8	35.4	(11.2)	(30.0)

Source: Hyundai Securities

Fair value cut to KRW41,000

In accordance with downward revisions made to 2011-12 earnings estimates, our fair value for Modetour Network is lowered to 16% from KRW48,500 to KRW41,000. The new fair value is based on the estimated EPS of KRW3,079 in 2012, when travel demand is expected to return to its normal trend, and a fair PER of 13.3x (80% premium to Hyundai Universe's average 2012 PER estimate of 7.3x). The 80% premium is derived from the ratio between Modetour Network's estimated 2012 ROE of 28% and Hyundai Universe's average 2012 ROE of 16%.

BUY maintained

We maintain BUY on Modetour Network despite downward revisions in earnings estimates and the fair value. There has been no proof as of yet that Korea's outbound travel industry is at a standstill, and the industry still seems to offer growth potential given that the proportion of outbound travelers only stands at 25% of the overall population. Furthermore, Modetour's portion of travelers is rising steadily, reaching 9% in Jul-Aug, up 0.7%YoY.

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