Mode Tour (080160 KS)

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Poor 3Q results on still weak demand for travel to Japan

BUY (Maintain)

Price (Oct. 12)	W28,100
Target Price	W45,000
% variance	60.1%

KOSPI		1,809.50p
KOSDAQ		467.65p
Market Cap.		W236.0bn/ US$207.1mn
Par Value		W500
Outstanding Shares		8.4mn
Free Floating Shares		4.8mn (57.1%)
52-Week High/Low		W44,100/ W23,000
60-Day Avg. Trading Volume		122,668shrs
60-Day. Avg. Trading T/O		W4,081mn
Foreign Ownership		10.01%
Major Shareholders	Related parties	18.7%
	Franklin Templeton	9.9%
Absolute Performance	3M	-29.8%
	6M	-17.8%
	12M	-20.5%
Relative Performance	3M	-19.6%
to KOSDAQ	6M	-10.2%
	12M	-16.0%

- **3Q11 operating profit down 10.3% YoY to W6.8bn on sales of W36.7bn**
- **Earnings will likely improve in 4Q11 compared to 3Q11**
- **Retain BUY while downgrading the target price to W45,000**

3Q11 operating profit down 10.3% YoY to W6.8bn on sales of W36.7bn

Mode Tour's 3Q11 K-IFRS operating profit declined 10.3% YoY to W6.8bn on sales of W36.7bn, up 0.1% YoY. Earnings turned sour in 3Q11 largely due to the delay in recovery of travel demand to Japan. In contrast, travel demand to other regions increased significantly. The effect of operating leverage appears to have failed to materialize in the high-demand season. Mode Tour distributed about W1.1bn in bonus payments to employees for the peak season and Chuseok holiday in 3Q11. The increased spending cut into operating profit.

Earnings will likely improve in 4Q11 compared to 3Q11

The recent increase in the won/dollar rate did not put a damper on outbound travel demand. The booking rate at Mode Tour stands at 10% for October, 12% for November, and 24% for December. The number of outbound departures for 2H11 should be higher than a year ago. Such a high reservation rate in the final quarter, a traditional off-season, can be explained by pent-up demand from people who have delayed their travel plans in the aftermath of Japan's earthquake. Add to that, it has become easier to buy cheap airline tickets with airlines offering more seats to Southeast Asia and Hawaii.

Mode Tour's sales are forecast to grow 9.2% YoY to W32bn in 4Q11. The company should not make bonus payments as it sales target for this year is not likely to be met. Its operating profit is projected to soar 137% YoY to W4.2bn accordingly.

Retain BUY while downgrading the target price to W45,000

We retain a BUY on Mode Tour. However, we lower its target price from W49,000 to W45,000 to reflect the disappointing 3Q11 results and lowered the outbound traveler estimate for 2011 (13.1mn → 12.9mn). Its current share price represents 12-month forward PER of 11x, which is at the low end of its trading band.

Year to Dec. (K-GAAP)	Sales (W bn)	OP (W bn)	Pre-tax (W bn)	NP (W bn)	EPS (won)	Growth (%)	PER (x)	EV/EBITDA (x)	PBR (x)	ROE (%)	Net Debt Ratio (%)	Div. Yield (%)
2009	61.4	0.2	1.5	1.2	144	96.0	114.1	101.1	2.8	2.4	(96.5)	0.3
2010	117.1	19.4	20.8	16.0	1,906	1,219.2	16.8	9.2	4.1	27.6	(123.6)	1.9
2011F	128.2	20.9	23.6	18.2	2,162	13.4	13.0	6.2	3.0	25.0	(121.6)	2.5
2012F	146.1	24.1	28.3	21.8	2,593	19.9	10.8	4.8	2.5	25.0	(117.4)	3.1
2013F	165.6	28.0	33.1	25.4	3,028	16.8	9.3	3.6	2.1	24.4	(113.9)	3.6

Mode Tour's quarterly results

	K-GAAP								K-IFRS	
(W bn)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11P	4Q11F	3Q10	3Q11
Operating revenue	25.0	26.3	36.5	29.3	33.9	25.8	36.6	32.0	36.7	36.7
Operating costs	20.3	21.6	28.1	27.5	25.9	24.0	29.7	27.8	29.1	29.9
OP	4.7	4.8	8.2	1.8	8.0	1.7	6.9	4.2	7.6	6.8
NP	4.0	3.5	6.5	2.1	6.2	1.9	5.3	4.8	6.1	5.3
(% YoY Growth)										
Operating revenue					35.4	(2.1)	0.4	9.2		0.1
OP					71.2	(63.3)	(15.7)	136.8		(10.3)
NP					56.6	(46.8)	(17.8)	130.4		(12.9)

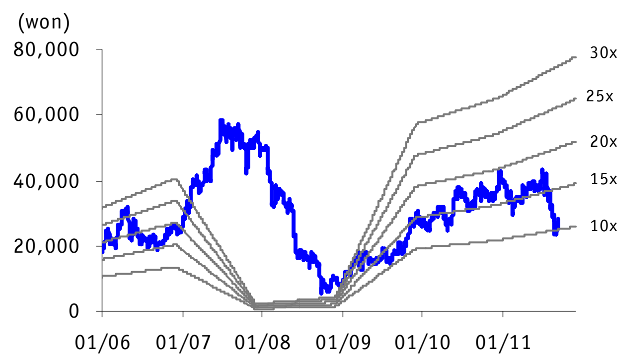
Source: Company data, Shinhan Investment Corp.

Earnings estimate revision

	Before		After		Change (%)	
(W bn)	2011F	2012F	2011F	2012F	2011F	2012F
Operating revenue	134.6	153.4	128.2	146.1	(4.7)	(4.7)
Operating costs	111.1	127.1	107.4	122.0	(3.4)	(4.0)
OP	23.5	26.3	20.9	24.1	(11.3)	(8.2)
NP	20.8	23.9	18.2	21.8	(12.7)	(8.9)

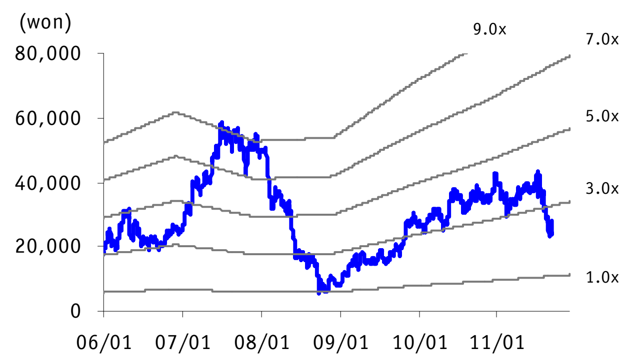
Source: Company data, Shinhan Investment Corp.

Mode Tour's 12-month forward PER band



Source: Shinhan Investment Corp.

Mode Tour's 12-month forward PBR band



Source: Shinhan Investment Corp.

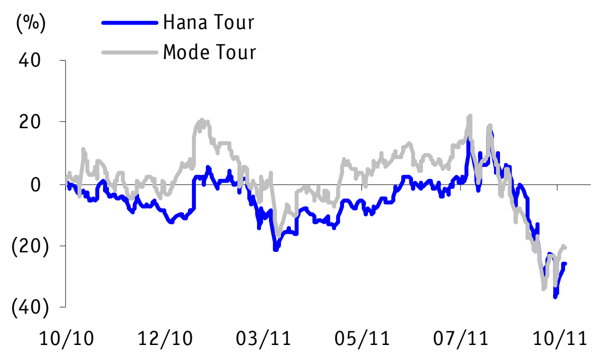
Global peers

Ticker		039130 KS	080160 KS	EXPE US	PCLN US	600138 CH	CTRP US	Long US
Company		**Hana Tour**	**Mode Tour**	**Expedia**	**Priceline**	**China CYTS**	**Ctrip**	**eLong**
Market cap. (W bn)	(2011.10.12)	420.5	236.0	8,981.2	28,569.5	1,039.9	5,755.7	627.3
Sales	2010	218.1	117.1	3,873.1	3,568.6	1,029.2	505.0	82.4
(W bn)	2011F	248.9	128.2	4,613.2	5,067.4	1,396.2	651.0	104.3
	2012F	293.6	146.1	5,167.0	6,358.3	1,632.7	823.2	131.1
OP	2010	27.2	19.4	853.1	910.2	80.7	184.8	8.0
(W bn)	2011F	33.1	20.9	964.9	1,614.4	123.8	217.2	10.6
	2012F	43.3	24.1	1,080.5	2,107.7	150.5	285.2	17.7
OP margin	2010	12.5	16.6	22.0	25.5	7.8	36.6	9.8
(%)	2011F	13.3	16.3	20.9	31.9	8.9	33.4	10.2
	2012F	14.7	16.5	20.9	33.1	9.2	34.6	13.5
NP	2010	24.1	16.0	487.6	610.3	45.4	183.7	3.5
(W bn)	2011F	28.3	18.2	642.9	1,366.9	56.4	249.3	5.7
	2012F	36.4	21.8	727.6	1,768.3	68.6	314.5	12.1
NP margin	2010	11.1	13.7	12.6	17.1	4.4	36.4	4.3
(%)	2011F	11.4	14.2	13.9	27.0	4.0	38.3	5.5
	2012F	12.4	14.9	14.1	27.8	4.2	38.2	9.3
EPS Growth	2010	T/B	1,219.2	29.9	(13.6)	(4.0)	41.0	(6.3)
(%YoY)	2011F	13.0	13.4	32.2	108.2	23.4	30.3	209.3
	2012F	28.3	19.9	14.3	30.7	21.7	24.8	33.8
P/E	2010	19.9	16.8	17.1	38.1	22.4	38.2	163.1
(x)	2011F	14.6	13.0	14.5	21.8	18.3	24.1	41.5
	2012F	11.4	10.8	12.7	16.7	15.0	19.3	31.0
P/B	2010	4.3	4.1	2.6	10.8	2.6	6.3	2.9
(x)	2011F	3.4	3.0	2.5	9.0	2.0	4.5	3.2
	2012F	2.8	2.5	2.2	6.0	1.8	3.7	3.4
ROE	2010	23.9	27.6	15.7	33.7	11.9	23.5	1.9
(%)	2011F	23.8	25.0	19.1	48.8	13.0	18.9	2.2
	2012F	26.2	25.0	17.6	42.1	13.7	18.7	3.6

Source: Bloomberg, Shinhan Investment Corp.

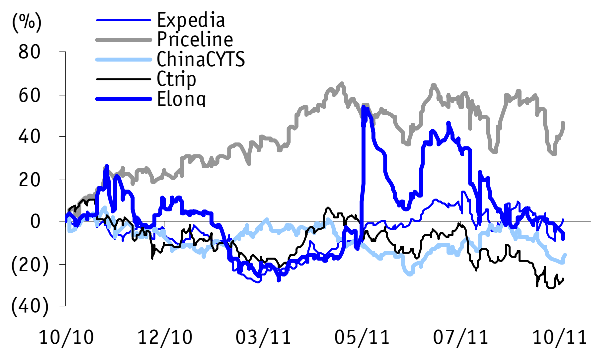
Note: Hana Tour's net profit is expected to be cut by 25% after its earnings release on Oct. 17

Hana Tour vs. Mode Tour's share performance



Source: Bloomberg, Shinhan Investment Corp.

Global travel stocks' share performance



Source: Bloomberg, Shinhan Investment Corp.

Note: Elong shares soared after the Chinese online game company Tencent's 16% stake acquisition

Balance Sheet

Year to Dec (W bn)	2009	2010	2011F	2012F	2013F
Total Assets	**86.2**	**124.1**	**140.2**	**159.0**	**180.2**
Current Assets	78.4	113.5	129.1	147.3	167.9
Cash & Cash Equivalents	16.9	28.0	40.2	52.8	67.2
St. Investment Assets	31.6	53.4	56.1	58.9	61.8
Accounts Receivable	10.7	13.7	13.4	15.3	17.3
Inventory	0.0	0.0	0.0	0.0	0.0
Others	19.2	18.4	19.4	20.4	21.5
Non-current Assets	7.7	10.6	11.1	11.6	12.3
Investment Assets	2.1	4.2	4.8	5.6	6.4
Tangible Assets	0.8	1.4	1.1	0.6	0.2
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**35.9**	**58.2**	**61.0**	**63.9**	**66.9**
Current Liabilities	31.1	51.9	54.3	56.8	59.5
Accounts Payable	0.0	0.0	0.0	0.0	0.0
St. Debt	0.0	0.0	0.0	0.0	0.0
Current Portion of Lt. Debt	0.0	0.0	0.0	0.0	0.0
Others	31.1	51.9	54.3	56.8	59.5
Non-current Liabilities	4.8	6.4	6.7	7.0	7.4
Bonds	0.0	0.0	0.0	0.0	0.0
Lt. Debt	0.0	0.0	0.0	0.0	0.0
Others	4.8	6.4	6.7	7.0	7.4
Total Stockholders Equity	**50.2**	**65.8**	**79.2**	**95.1**	**113.3**
Paid-in Capital	4.2	4.2	4.2	4.2	4.2
Capital Surplus	30.0	30.0	30.0	30.0	30.0
Capital Adjustment	(8.1)	(8.1)	(8.1)	(8.1)	(8.1)
Other Accumulated Earnings	0.0	0.0	0.0	0.0	0.0
Retained Earnings	24.1	39.7	53.0	68.9	87.1
Total Debt	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net Debt(Cash)	**(48.5)**	**(81.4)**	**(96.3)**	**(111.7)**	**(129.1)**

Profit and Loss

Year to Dec (W bn)	2009	2010	2011F	2012F	2013F
Net Sales	**61.4**	**117.1**	**128.2**	**146.1**	**165.6**
Growth (%)	(26.3)	90.8	9.5	14.0	13.3
Export ratio (%)	0.0	0.0	0.0	0.0	0.0
Cost of Sales	0.0	0.0	0.0	0.0	0.0
Growth (%)	na	na	na	na	na
Gross Profit	61.4	117.1	128.2	146.1	165.6
Gross Margin(%)	100.0	100.0	100.0	100.0	100.0
SG&A Expenses	61.1	97.7	107.4	122.0	137.7
Growth (%)	(25.8)	59.7	9.9	13.6	12.8
Operating Profit	**0.2**	**19.4**	**20.9**	**24.1**	**28.0**
Growth (%)	(74.3)	8,128.3	7.3	15.8	15.8
Operating Margin(%)	0.4	16.6	16.3	16.5	16.9
Non-Operating Inc (Exp)	1.3	1.4	2.8	4.2	5.1
Interest Income	2.0	2.1	3.5	4.2	5.1
Interest Expenses	0.0	0.0	0.0	0.0	0.0
Net F/X	(0.2)	0.2	0.2	0.2	0.2
Net Asset Disposal	(0.2)	0.4	0.4	0.4	0.4
Net Equity Method	(0.6)	0.6	0.7	0.7	0.8
Net Other non-operating	0.3	(1.9)	(1.9)	(1.3)	(1.4)
Pre-tax Profit from Cont. Op	**1.5**	**20.8**	**23.6**	**28.3**	**33.1**
Income Taxes	0.3	4.8	5.5	6.5	7.6
Profit from Cont. Op	1.2	16.0	18.2	21.8	25.4
Profit from Discont. Op	0.0	0.0	0.0	0.0	0.0
Net Profit	**1.2**	**16.0**	**18.2**	**21.8**	**25.4**
Growth (%)	96.0	1,219.2	13.4	19.9	16.8
Net Margin(%)	2.0	13.7	14.2	14.9	15.4
EBITDA	0.9	20.2	22.6	26.0	29.8
Growth (%)	(49.5)	2,174.7	11.7	15.0	14.6
Dividend Payout (%)	**33.1**	**30.1**	**32.4**	**33.2**	**33.4**

Cash Flow

Year to Dec (W bn)	2009	2010	2011F	2012F	2013F
Cash Flows from Operating	**5.5**	**36.1**	**21.1**	**22.6**	**26.0**
Net Profit	1.2	16.0	18.2	21.8	25.4
Depreciation	0.7	0.8	1.7	1.9	1.8
Amortization	0.0	0.0	0.0	0.0	0.0
Equity Method Loss(Gain)	0.6	(0.6)	(0.7)	(0.7)	(0.8)
Investment Asset Disp Loss(Gain)	0.2	(0.4)	(0.4)	(0.4)	(0.4)
Tangible Asset Disp Loss(Gain)	0.0	0.0	0.0	0.0	0.0
Changes in Working Capital	0.4	17.5	0.2	(2.1)	(2.3)
Others	2.3	2.8	2.1	2.2	2.3
Cash Flows from Investing	**(0.2)**	**(24.6)**	**(4.1)**	**(4.2)**	**(4.3)**
St. Investment Assets Dec.(Inc.)	(0.6)	(21.8)	(2.7)	(2.8)	(2.9)
Investment Securities Dec.(Inc.)	0.5	(1.0)	0.0	0.0	0.0
Tangible Assets Dec.(Inc.)	(0.4)	(1.4)	(1.4)	(1.4)	(1.4)
Others	0.3	(0.4)	0.0	0.0	(0.0)
Free Cash Flow	**5.2**	**11.5**	**17.1**	**18.4**	**21.7**
Cash Flows from Financing	**(0.2)**	**(0.4)**	**(4.8)**	**(5.9)**	**(7.2)**
St. Debt Inc.(Dec.)	0.0	0.0	0.0	0.0	0.0
Cur. Por. of Lt. Debt Inc.(Dec.)	0.0	0.0	0.0	0.0	0.0
Bonds Inc.(Dec.)	0.0	0.0	0.0	0.0	0.0
Lt. Debt Inc.(Dec.)	0.0	0.0	0.0	0.0	0.0
Share Capital Inc.(Dec.)	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(0.2)	(0.4)	(4.8)	(5.9)	(7.2)
Others	0.0	0.0	0.0	0.0	0.0
Change in Cash	**5.1**	**11.1**	**12.2**	**12.5**	**14.5**
Beginning Cash	11.8	16.9	28.0	40.2	52.8
Ending Cash	16.9	28.0	40.2	52.8	67.2
Capex/ Sales (%)	0.7	1.2	1.1	1.0	0.8
Depreciation/ Sales (%)	1.1	0.7	1.4	1.3	1.1
Depreciation/ Capex (%)	147.5	58.3	125.1	133.6	131.9

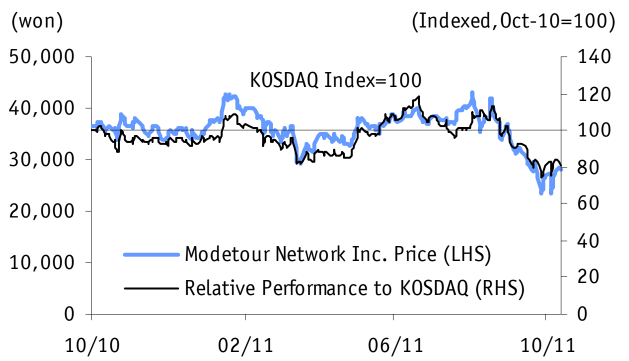
Source: Company data, Shinhan Investment Corp. K-GAAP

Key Ratios

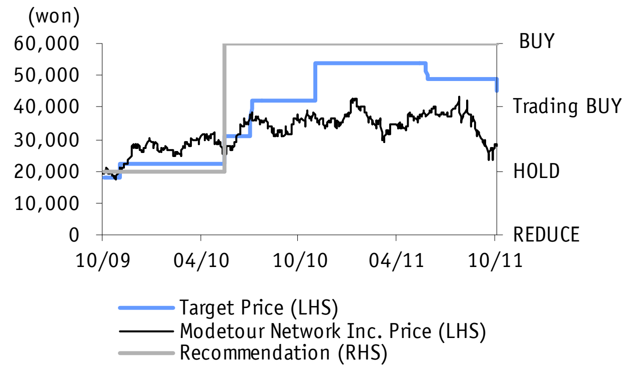
Year to Dec	2009	2010	2011F	2012F	2013F
EPS (won)	144	1,906	2,162	2,593	3,028
Adj. EPS (won)	171	1,856	2,113	2,543	2,978
BPS (won)	5,981	7,839	9,427	11,320	13,488
DPS (won)	50	600	700	860	1,010
PER (x)	114.1	16.8	13.0	10.8	9.3
Adj. PER (x)	96.2	17.2	13.3	11.0	9.4
PBR (x)	2.8	4.1	3.0	2.5	2.1
PCR (x)	27.4	14.5	11.3	9.6	8.3
EV/ EBITDA (x)	101.1	9.2	6.2	4.8	3.6
PEG (x)	0.7	1.0	0.7	na	na
Dividend Yield (%)	0.3	1.9	2.5	3.1	3.6
Profitability					
Operating Margin (%)	0.4	16.6	16.3	16.5	16.9
EBITDA Margin (%)	1.4	17.3	17.6	17.8	18.0
Pre-tax Profit Margin(%)	2.4	17.8	18.4	19.4	20.0
Net Margin (%)	2.0	13.7	14.2	14.9	15.4
ROA (%)	1.5	15.2	13.7	14.6	15.0
ROE (%)	2.4	27.6	25.0	25.0	24.4
ROIC (%)	1.4	(333.7)	(112.0)	(122.1)	(143.5)
Stability					
Debt Ratio (%)	71.5	88.4	77.0	67.2	59.0
Net Debt Ratio (%)	(96.5)	(123.6)	(121.6)	(117.4)	(113.9)
Interest Coverage (x)	na	na	na	na	na
Activity					
Asset Turnover (x)	0.8	1.1	1.0	1.0	1.0
Receivables Turnover (x)	5.9	8.4	8.9	9.6	9.6
Inventory Turnover (x)	0.0	0.0	0.0	0.0	0.0
Payables Turnover (x)	0.0	0.0	0.0	0.0	0.0
Working Capital Turnover (x)	(172.7)	(11.2)	(6.2)	(6.8)	(7.9)

Source: Company data, Shinhan Investment Corp. K-GAAP

Share Price Performance



Target Price & Recommendation History



SHIC Rating Classifications: BUY; Over +15%, Trading BUY; 0 to 15%, HOLD; -15% to 0, REDUCE; -15% or More (As of 25 Jul. 2011)