

Regional Company Focus

Modetour Networks

Bloomberg: 080160 KS | Reuters: 080160.KS

DBS Group Research . Equity

25 October 2013

BUY KRW 23,250 KOSDAQ: 531

Price Target : KRW 33,000 (prev. KRW38,000)

Reason for Report : 3Q13 result / company update

Potential Catalysts: (i) Solid earnings growth over 4Q13-14F, and (ii) attractive valuation

DBSV vs Consensus: FY14F net profit is 20% lower

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (KRW bn)	2011A	2012A	2013F	2014F
Operating Revenue	121	133	145	161
EBITDA	17	22	22	26
Pre-tax Profit	18	22	24	28
Net Profit	13	17	18	22
Net Pft (Pre Ex.)	13	17	18	22
Adjusted Net Pft (Pre Ex.)*	14	18	17	21
EPS (KRW)	1,052	1,410	1,505	1,811
Diluted EPS (KRW)	1,052	1,410	1,505	1,811
EPS Gth (%)	(11.0)	34.0	6.7	20.4
Adjusted EPS (KRW)	924	1,453	1,382	1,689
DPS (KRW)	500	650	700	800
BV Per Share (KRW)	5,645	6,695	7,852	9,840
PE (X)	22.1	16.5	15.5	12.8
Adjusted PE (X)	25.2	16.0	16.8	13.8
P/Cash Flow (X)	12.1	13.2	12.0	9.3
EV/EBITDA (X)	13.4	9.7	10.2	8.4
Net Div Yield (%)	2.2	2.8	3.0	3.4
P/Book Value (X)	4.1	3.5	3.0	2.4
Net debt (cash)	(27)	(40)	(39)	(47)
ROAE (%)	19.0	22.6	20.7	20.5

Earnings Rev (%)		(19)	(16)
Consensus EPS (KRW)		1,971	2,174
No. of brokers following	B:19	S:0	H:1

*Adjusted Net Pft = Net pft (parent) + tax-adjusted net equity income

ICB Industry: Consumer Services

ICB Sector: Travel & Leisure

Principal Business: Travel & Tourism

Source of all data: Company, DBS Vickers, Bloomberg Finance L.P.

Primed for a rebound

- **3Q13 operating profit 15% below forecast**
- **Expect stronger earnings growth (y-o-y) in 2014**
- **Maintain BUY on attractive valuation and improving earnings; cut FY13F/FY14F profit, and TP to KRW33,000**

3Q13 operating profit came in at KRW8.8bn (+15% y-o-y; +387% q-o-q). This was 15% below our estimate mainly because the number of Korean visitors to Japan dropped sharply following media reports in late July that the crippled Fukushima nuclear plant was leaking radioactive wastes (details on next page).

Resuming growth momentum in 2014F. FY14F earnings (IFRS parent-based) is forecast to grow by 20% y-o-y to KRW22bn, driven by the following: (i) 17% y-o-y increase in the number of outbound travelers to 1.56m (assuming 6.1% industry growth and 1.0 ppt M/S gain), (ii) company-specific cost saving measures (full implementation of volume incentive payout system to its franchise agents), (iii) a larger share of higher-margin LCC product offerings, and (iv) a low base this year.

Maintain BUY, but trimmed TP to KRW33,000 (pegged to 19.5x FY14 P/E). We cut FY13F/14F net profit by 19% / 17% to KRW18.4bn / KRW22.2bn (IFRS parent-based) after adjusting for weaker results, lackluster outlook for outbound travel to Japan and inbound business (after China banned companies from offering 'shopping tours', levying extra charges, and demanding tips). Following the earnings downgrade, we cut TP to KRW33,000. For this, we also moved our valuation base to FY14F. However, earnings will be resilient this year (flat y-o-y). It is difficult to ignore the misfortunes the company had experienced this year, i.e. bird flu in China, renewed fears of a meltdown at Fukushima plant, extraordinary cancellation of chartered flights. The stock is currently trading at only 12.8x FY14F P/E, near its 3-year low. This implies the negatives have been priced in. In addition, most of its event-driven corrections had been short-lived (less than six months). Based on these, we believe the current share price represents a good entry point. Stronger FY14 earnings, possible share buyback (cash-rich position), and a stronger KRW will renew interest in the stock.

At A Glance

Issued Capital (m shrs)	13
Mkt Cap (KRWbn/US\$m)	293 / 276
Major Shareholders (%)	
Jong-Woong Woo	10.66
National Pension Service	8.83
Free Float (%)	80.51
Avg Daily Volume (m shrs)	0.1

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DBS VICKERS SECURITIES

1. Modetour: 3Q13 Result Summary (KIFRS parent based)

KRW (bn)	1Q13	2Q13	3Q13	4Q13E	2012	2013E	2014E
OR	35.9	29.9	43.2	36.4	132.8	145.4	161.0
Package sales	30.5	25.8	38.7	31.4	113.2	126.4	139.9
Air ticket sales	2.9	1.8	2.3	2.1	11.9	9.2	10.6
Others	2.5	2.3	2.2	0.6	7.7	7.6	10.4
SG & A	30.3	28.1	34.4	31.7	111.6	124.5	130.9
Operating profit	5.6	1.8	8.8	4.7	21.2	20.9	24.9
Operating margin %	15.7	6.0	20.4	12.9	15.9	14.4	15.5
Non operating profit	0.5	0.8	1.1	0.9	1.3	3.4	3.5
Pretax profit	6.2	2.5	9.9	5.6	22.4	24.1	28.4
Net profit	4.7	1.9	7.4	4.4	17.3	18.4	22.2
Net margin %	13.2	6.4	17.1	12.0	13.0	12.7	13.8
y-o-y growth %	(6.2)	(17.7)	13.8	29.1	30.2	6.7	20.4
Key assumptions							
Total travellers (000)	3,401	3,177	3,672	3,335	12,550	13,584	14,413
Mode Tour customers (000)	358	306	350	317	1,312	1,331	1,557
M/S	10.5	9.6	9.5	9.5	10.5	9.8	10.8

Source: Company, DBS Vickers

3Q13 earnings review. Modetour booked KRW43.2bn operating revenue (+10% y-o-y, +44% q-o-q) and KRW8.8bn operating profit (+15% y-o-y, +387% q-o-q) in the quarter. Operating profit margin rose 0.5 ppt y-o-y to 20.4% mainly due to a larger share of higher-margin LCC product offerings.

On a positive note, 3Q13 operating profit could have been higher if the the number of Korean visitors to Japan had not fallen sharply. Following the latest media reports on Fukushima, the company saw a 3% y-o-y drop in the number of customers travelling to Japan in September (vs. a 56% y-o-y increase in the earlier two months). This took a large toll on earnings for the period.

Based on its latest reservation data, management forecasts the number of outbound customers to Japan will drop by 30% y-o-y to 14.7K in 4Q13. It does not expect a full recovery until at least late spring 2014.

To be conservative, we pencilled in a 30% y-o-y drop in customers on this route for 2014. This alone reduced our FY14 earnings estimate by 9%.

Also, starting this year, staff salaries have been switched to a performance-based system. Previously, salaries were based on the number of years in employment. The new system – which management had been trying for years to implement – is more efficient at keeping its overall costs in check. The management finally came to an agreement with its labour union to start this year subject to the company raising overall salaries by 10-15% first. Hence, salary expenses will

be unusually high this year (rise by c.15%). This will crimp earnings, but the annual increment should moderate back to c.5% from next year onwards. And as long as revenues continue to grow, the new pay system could be an effective cost-saving measure.

The company is also currently trying to improve its cost structure. Specifically, all commission payments to franchise agents will be based on volume incentives starting next year. This will help to incentivise its agents to expand revenues, and also curb redundant costs as Modetour will be able to reduce commission payments to agents who are not performing.

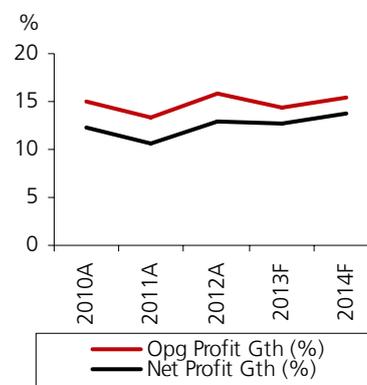
Its agents had requested the company to allow a one-year grace period, which is this year. To make up for anticipated transition expenses, they have asked for a higher commission incentive rate for this year (40% vs. 35% previously). Management had agreed to this, which was reflected in the 20% y-o-y increase in commission expenses for 9M13.

Going into 2014, Modetour's overall commission expenses are expected to drop by 4% y-o-y (despite larger revenues) as the commission rate will drop back to c.37% and it would have reduced redundant costs. The combined effect of this non-recurring transition cost and a better incentive payout system will play a key role in increasing next year's operating profit. Coupled with a larger share of higher-margin LCC product offerings and greater economies of scale in its operations, we forecast a 1.1 ppt y-o-y improvement in operating margin next year.

Income Statement (KRW bn)

Margin Trends

FY Dec	2010A	2011A	2012A	2013F	2014F
Operating Revenue	117	121	133	145	161
Gross Profit	117	121	133	145	161
SG&A	(100)	(105)	(112)	(124)	(136)
Operating Profit	17	16	21	21	25
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Financial (Exp)/Inc	2	2	1	3	4
Exceptional Gain/(Loss)					
Pre-tax Profit	20	18	22	24	28
Tax	(5)	(6)	(5)	(6)	(6)
Minority Interest	(2)	(1)	0	0	0
Net Profit	14	13	17	18	22
Net Profit before Except.	14	13	17	18	22
EBITDA	18	17	22	22	26
Sales Gth (%)	n.a.	3.4	9.7	9.5	10.7
EBITDA Gth (%)	n.a.	(7.4)	32.2	(2.9)	18.3
Opg Profit Gth (%)	n.a.	(8.4)	32.0	(1.1)	19.1
Effective Tax Rate (%)	26.8	30.2	23.1	23.6	22.0



Operating profit growth to pick up in FY14F

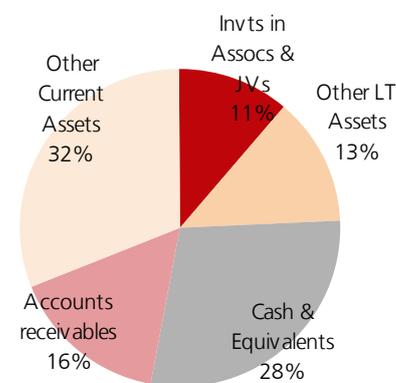
Source: Company, DBS Vickers

Source: Company, DBS Vickers

Balance Sheet (KRW bn)

Asset Breakdown

FY Dec	2010A	2011A	2012A	2013F	2014F
Total Fixed Assets	10	25	35	39	57
Invts in Assocs & JVs	3	17	16	18	20
Other LT Assets	7	8	19	21	37
Cash & Equivalents	28	27	40	39	47
Accounts receivables	16	14	23	25	28
Other Current Assets	70	63	45	51	52
Total Assets	123	129	143	155	184
ST Debt	-	-	-	-	-
Trade payables	35.2	29	28	31	34
Other Current Liab	18	19	23	17	17
LT Debt	-	-	-	-	-
Other LT Liabilities	7	9	10	10	12
Shareholder's Equity	63	71	82	96	120
Total Cap. & Liab.	123	129	143	155	184
Chg. in Wkg. Cap	13	(1)	(2)	(2)	0
Net Debt (cash)	(28)	(27)	(40)	(39)	(47)



Source: Company, DBS Vickers

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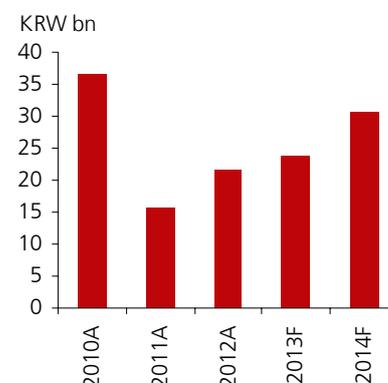
Modetour Networks

Cash Flow Statement (KRW bn)

FY Dec	2010A	2011A	2012A	2013F	2014F
Pre-Tax Profit	20	18	22	24	28
Dep. & Amort.	1	1	1	1	1
Tax Paid	5	6	5	6	6
Assoc. & JV Inc	-	-	-	-	-
Chg. in Wkg. Cap	13	(1)	(2)	(2)	0
Other Operating CF	(3)	(8)	(5)	(5)	(5)
Net Operating CF	36	15	22	24	31
Capital Exp. (net)	(1)	(1)	(1)	(1)	(1)
Investments	(22)	(10)	13	(2)	(1)
Other Investing CF	(1)	(1)	(13)	(15)	(22)
Net Investing CF	(25)	(11)	(2)	(18)	(24)
Div Paid	(0)	(5)	(4)	(6)	(7)
Chg in Gross Debt	-	-	-	-	-
Capital Issues	-	-	-	-	-
Other Financing CF	-	-	(3)	-	-
Net Financing CF	(0)	(5)	(7)	(6)	(7)
Net Cashflow	11	(1)	13	(1)	(1)
Beginning cash	-	28	27	40	39
End Cash	28	27	40	39	47

Source: Company, DBS Vickers

Operating cashflow



Source: Company, DBS Vickers

Rates and Ratio

FY Dec	2010A	2011A	2012A	2013F	2014F
Opg Profit Margin (%)	14.9	13.2	15.9	14.4	15.5
Net Profit Margin (%)	12.3	10.6	13.0	12.7	13.8
ROAE (%)	22.7	19.0	22.6	20.7	20.5
ROA (%)	11.6	10.1	12.7	12.4	13.1
ROCE (%)	27.1	11.8	15.0	14.3	14.6
Div Payout Ratio (%)	2.8	37.8	23.3	33.0	33.0
Interest Cover (x)	NM	NM	NM	NM	NM
Asset Turnover (x)	1.9	1.0	1.0	1.0	1.0
Debtors Turn (days)	49.2	42.6	63.6	64.0	64.0
Creditors Turn (days)	124.8	97.5	89.7	92.0	92.0
Current Ratio (x)	2.1	2.2	2.1	2.4	2.5
Quick Ratio (x)	2.1	2.2	2.1	2.4	2.5
Net Debt/Equity (X)	Net Cash				
Capex to Debt (%)	NA	NA	NA	NA	NA
Opg CFPS (KRW)	4,531	1,926	1,760	1,937	2,502
Free CFPS (KRW)	4,709	2,012	1,842	2,019	2,583

Source: Company, DBS Vickers

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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