

Regional Company Focus

Modetour Networks

Bloomberg: 080160 KS | Reuters: 080160.KS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 December 2013

BUY KRW 21,800 KOSDAQ: 494.78

Price Target : 12-Month KRW 33,000

Reason for Report : Company update / key takeaways from NDR

Potential Catalysts: (i) Solid FY14-15F earnings growth, (ii) compelling valuation, (ii) stronger KRW, and (ii) gaining M/S with upgraded online sales platform

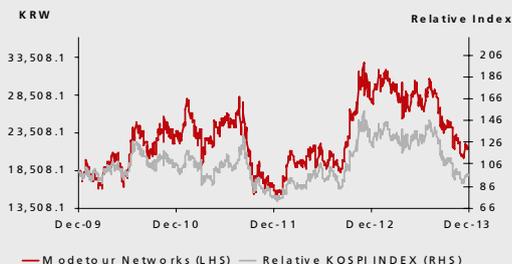
DBSV vs Consensus: Our 4Q13F operating profit is 10% lower

Analyst

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Price Relative



Forecasts and Valuation (IFRS parent)

FY Dec (KRW bn)	2012A	2013F	2014F	2015F
Operating Revenue	133	141	158	175
EBITDA	22	21	27	30
Pre-tax Profit	22	23	29	34
Net Profit	17	18	22	26
Net Pft (Pre Ex.)	17	18	22	26
Adjusted Net Pft (Pre Ex.)*	18	16	23	27
EPS (KRW)	1,410	1,433	1,823	2,142
Diluted EPS (KRW)	1,410	1,433	1,823	2,142
EPS Gth (%)	34.0	1.6	27.3	17.5
Adjusted EPS (KRW)	1,439	1,294	1,866	2,190
DPS (KRW)	450	450	600	700
BV Per Share (KRW)	6,695	8,143	9,015	10,311
PE (X)	15.5	15.2	12.0	10.2
Adjusted PE (X)	15.2	16.8	11.7	10.0
P/Cash Flow (X)	12.4	11.8	8.8	7.7
EV/EBITDA (X)	8.1	10.3	7.8	6.5
Net Div Yield (%)	2.1	2.1	2.8	3.2
P/Book Value (X)	3.3	2.7	2.4	2.1
Net debt (cash)	(40)	(47)	(59)	(73)
ROAE (%)	22.6	19.3	21.3	22.2

Earnings Rev (%)	(6)	10	New
Consensus EPS (KRW)	1,485	1,781	2,044
No. of brokers following	B:18	S:0	H:2

* Adjusted net profit = [Reported net profit + (net) equity income x (1-effective tax rate)] = IFRS Consolidated net profit.

ICB Industry: Consumer Services

ICB Sector: Travel & Leisure

Principal Business: Travel & Tourism

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

At the crossroads

- Expect flat 4Q13 profit, but strong growth in 2014
- Raised 2014F consolidated net profit by 10% after imputing a stronger KRW and normalising margins for inbound business
- Maintain BUY rating given attractive valuation and stronger earnings ahead

4Q13: tone down expectations. We cut 4Q13F net income (IFRS parent) from KRW4.4bn to KRW3.5bn. The weaker outlook is largely due to Typhoon Haiyan in the Philippines and Thailand's ongoing political impasse. Although natural disasters or man-made catastrophes are nothing new to travel operators, it is still rare for two major events to happen simultaneously in the same region. ASEAN region accounts for the largest share of its revenue at 45%.

But expect strong FY14 earnings. We forecast Modetour's earnings (IFRS parent) will jump 27% y-o-y to KRW22bn in FY14F, driven by: (i) 21% y-o-y jump in the number of outbound travel customers to 1.64m, (ii) company-specific cost-saving measures (e.g. full implementation of volume incentive payout system for its franchise agents), (iii) a low base this year, and (iv) a larger share of higher-margin LCC product offerings.

Maintain BUY, TP KRW33,000. Interpark's possible entry into the packaged travel segment which has long been dominated by Modetour and Hana Tour has created fears of a spike in competition in that segment. We believe this fear is excessive. There are high entry barriers in this segment; it is difficult for a new player to achieve the economies of scale necessary to compete against the two dominant wholesalers. We raised FY14F consolidated net profit by 10% to KRW23bn after imputing 1) a stronger KRW (improves travellers' purchasing power overseas and reduces Modetour's ground service costs), and 2) normalising margins for inbound business (following China government's new regulation to curb competition in the inbound travel segment). The stock is now trading at only 12x FY14F P/E, near its 5-year low, implying the negatives have been priced in. It is a good entry point now. 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)	275 / 261
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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Korea outbound travel: multiple demand growth drivers in 2014-15

We forecast the number of outbound Korean travellers (excluding airline employees) will reach new highs of 14.7m in 2014 and 15.6m in 2015, translating into y-o-y growth rates of 6.7% (against 13.7m outbound travellers in 2013F) and 6.2%, respectively. This should bode well for Korean wholesale travel agents, which currently derive over 90% of their earnings from outbound travel operations.

Although the weak economy has capped consumer spending in Korea, the structural shift in spending patterns has led to higher spending on leisure and travel. Equally important, an increasing supply of low-cost international (seat) capacity continues to create new demand by capturing a market that otherwise cannot afford to travel. Their ability to offer lower fares has continued to help to convert latent demand into effective demand.

This year is characterised by an unusually high number of natural disasters and man-made catastrophes (i.e. bird flu in China, renewed fears of a meltdown at Fukushima, Typhoon Haiyan in the Philippines, and political turmoil in Thailand).

But amid this backdrop, outbound travel from Korea grew 9.4% y-o-y to 11.4m travellers in 10M13. This suggests the powerful combined impact of the demand drivers mentioned above: the shift in consumer spending towards more leisure and travel, and an increase in international capacity driven by the strong growth of low cost carriers (LCC). These have overshadowed traditional demand determinants (i.e. natural disasters, weak domestic economy).

The rule of thumb is that this shift in consumer spending pattern will continue, unless there is a major economic recession. Korea's economy has cooled down, but it is still nowhere near a recession. Thus, the shift is expected to sustain its course until it reaches a certain level on the back of a continuing economic uptrend (even at a soft degree).

South Koreans spent KRW50tn on entertainment & cultural activities last year, or 9% of household consumption spending, according to Bank of Korea. To compare,

spending in OECD countries (simple average) on leisure & tourism is 12% of total spending. This suggests there is room for higher spending on leisure and travel in Korea, which is an OECD member.

Meanwhile, domestic LCCs currently have 9.5% combined market share of Korea's total outbound traffic. This share is low compared to that in the EU and ASEAN countries; LCCs there have 37% and 55% share of the respective total outbound traffic.

The Korean LCC market share is still small due to the short operating history, but it is growing rapidly compared to only 3.6% share in 2011.

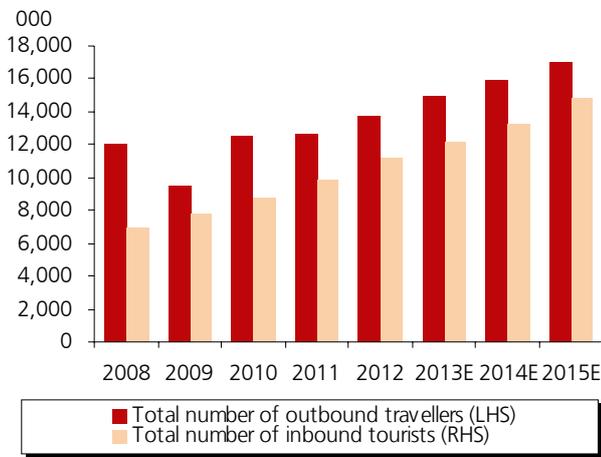
Note that Korean LCCs derive most of their earnings from international routes as intensifying competition in domestic routes have caused marketing expenses to eat into profit margins. This has driven Korean LCCs to seek growth through expanding international routes. Accordingly, they have been actively introducing new destination markets in Asia, and this will likely continue in the next few years.

This year, for example, domestic LCCs have expanded their international aircraft fleet by c.20% to 51 planes, with most of the new planes deployed to new routes (i.e. more flights to Japan, China, and Southeast Asia). The growth of international passenger flight capacity will also be boosted by the entry of more foreign LCCs to the Korean market, thanks to domestic wholesale travel agents' - Hana Tour and Modetour - invitations to LCCs to introduce and operate new tourism routes to/from Korea.

To sum, these two unorthodox factors will continue to increase demand for outbound tourism over 2014-15. Additionally, other traditional growth engines – stronger local currency and domestic consumption – have strengthened since 2H13 and will contribute more to the sector's growth.

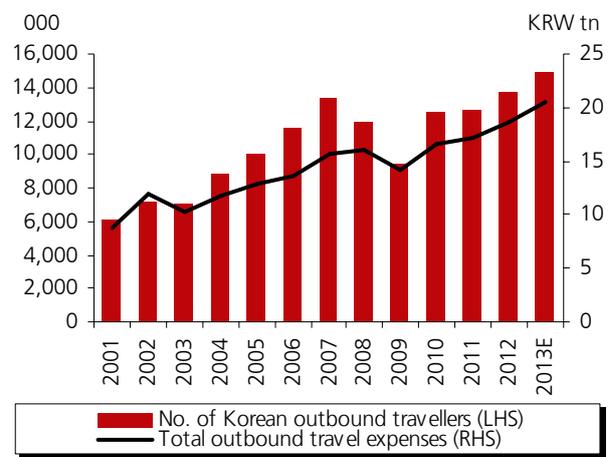
Lastly, the Korean government is gradually adopting the substitute holiday system from 2014 – if a holiday falls on a Sunday, the following Monday would be declared an official holiday. This will be another growth driver for Korea's tourism industry.

1. Korea: Outbound & inbound travel demand



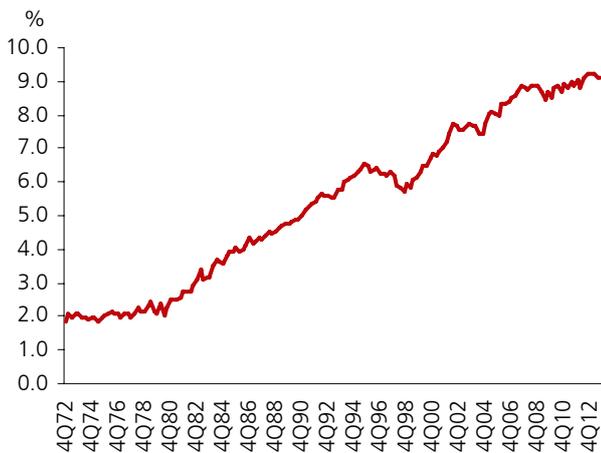
Source: Korea Tourism Organisation, Company, DBS Vickers

2. Korea: Number of outbound travellers & total outbound travel expenses



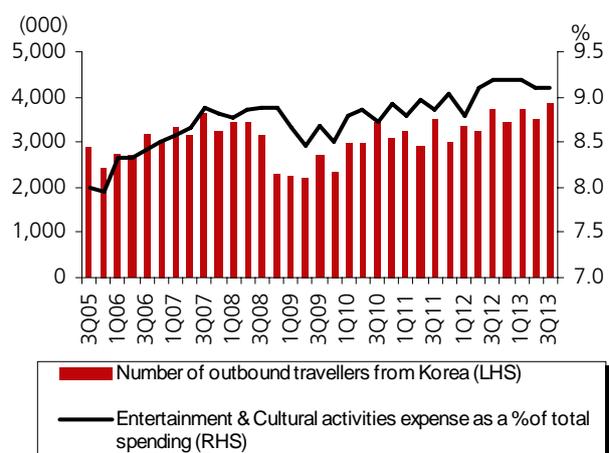
Source: Korea Tourism Organisation, Bank of Korea, DBS Vickers

3. Korea: Entertainment & cultural activities spending as a % of consumer spending



Source: Bank of Korea

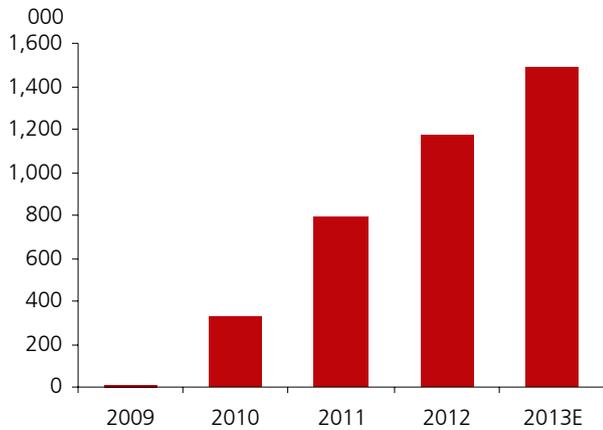
4. Korea: No. of outbound travellers vs. entertainment & cultural activities expenses as a % of consumer spending



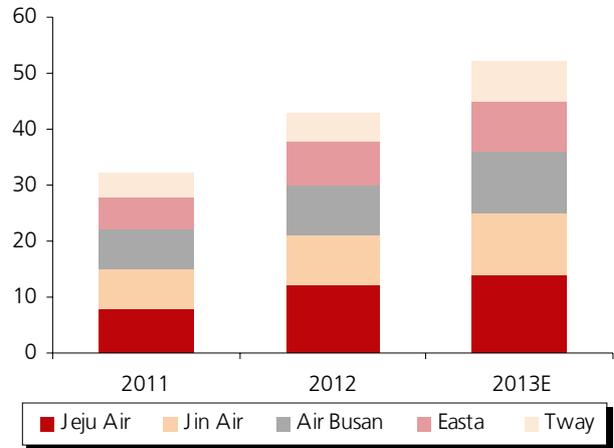
Source: Korea Tourism Organisation, Bank of Korea

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5. Korea: No. of LCC passengers (international flights only)

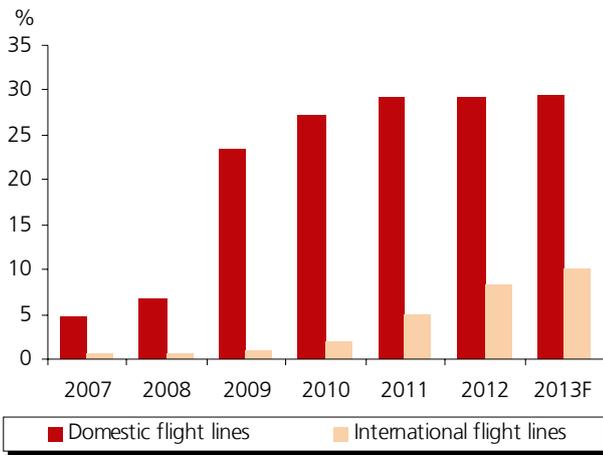


6. Korea: Total LCC fleet (passenger only)

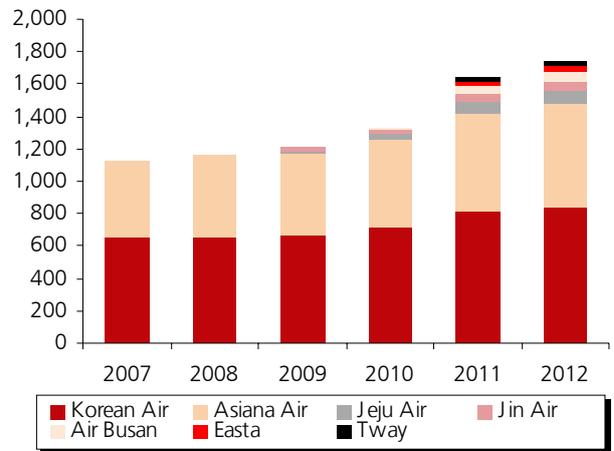


Source: Ministry of Land, Infrastructure, and Transport, Company, DBS Source: Ministry of Land, Infrastructure, and Transport, Company, DBS Vickers

7. Korea: LCC market share trends (passenger only)

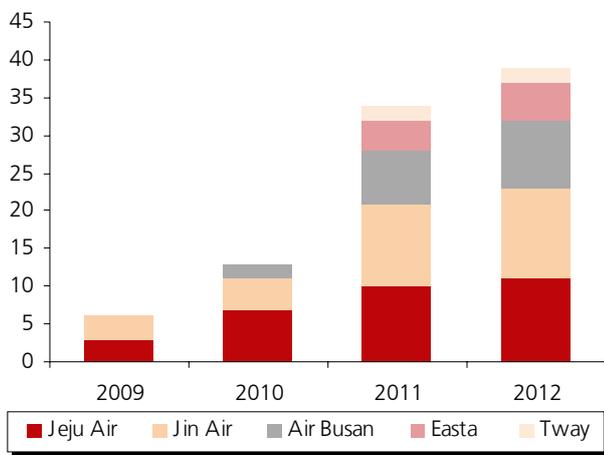


8. Korea: No. of international flights (passenger only)



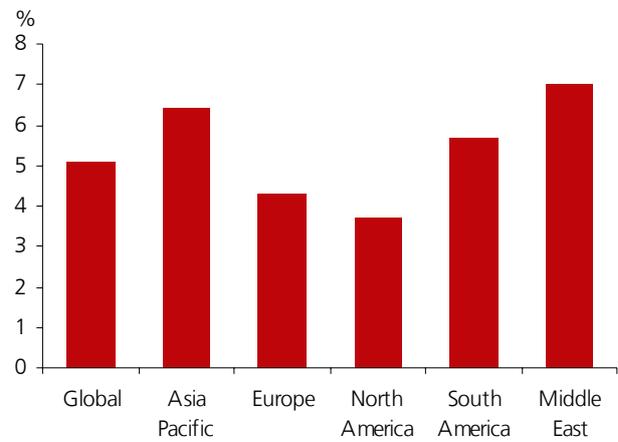
Source: Ministry of Land, Infrastructure, and Transport, Company, DBS Source: Ministry of Land, Infrastructure, and Transport, Company Vickers

9. Korea: No. of LCC international flight lines (passenger only)



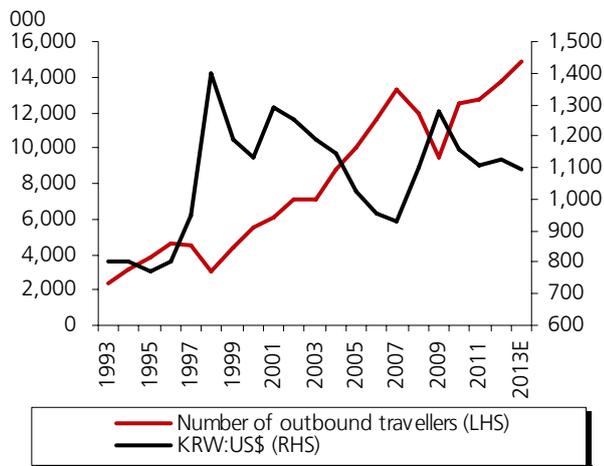
Source: Ministry of Land, Infrastructure, and Transport

10. Global passenger traffic volume by region



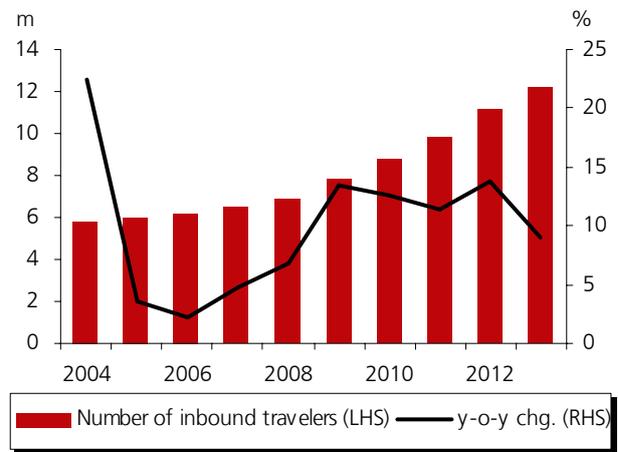
Source: Boeing

11. Korea: Number of outbound travellers vs. KRW:USD trends



Source: Korea Tourism Organisation, Bank of Korea

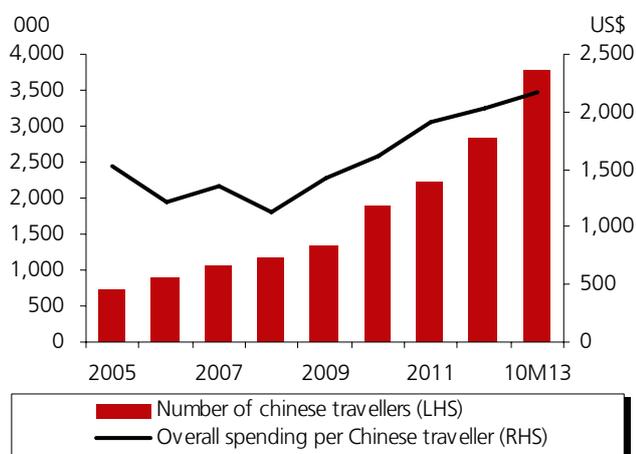
12. Korea: Number of foreign inbound travellers



Source: Korea Tourism Organisation

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13. Korea: Number of foreign inbound travellers



Source: Korea Tourism Organisation

14. Modetour: Earnings trends and projection (IFRS parent based)

KRW (bn)	1Q13	2Q13	3Q13	4Q13E	2012	2013E	2014E	2015E
Operating Revenue	35.9	29.9	43.3	32.0	132.8	141.1	158.0	174.6
Package sales	30.5	25.8	38.7	28.2	113.2	123.2	137.5	152.5
Air ticket sales	2.9	1.8	2.3	2.4	11.9	9.5	10.5	11.6
Others	2.5	2.3	2.3	1.4	7.7	8.5	10.0	10.5
SG & A	30.3	28.1	34.5	27.8	111.6	120.7	132.1	144.5
Operating profit	5.6	1.8	8.8	4.2	21.2	20.4	25.9	30.1
Operating margin %	15.7	6.0	20.4	13.1	15.9	14.5	16.4	17.2
Non operating profit	0.5	0.8	1.0	0.4	1.3	2.8	3.4	4.4
Pretax profit	6.2	2.5	9.8	4.6	22.4	23.1	29.4	34.5
Net profit	4.7	1.9	7.4	3.5	17.3	17.5	22.3	26.2
Net margin %	13.2	6.4	17.0	10.9	13.0	12.4	14.1	15.0
y-o-y growth %	-6.2	-17.7	13.4	3.8	30.2	1.6	27.3	17.5
Key assumptions								
Total travellers (000)	3,401	3,177	3,679	3,326	12,550	13,736	14,656	15,565
Mode Tour customers (000)	358	306	350	344	1,312	1,358	1,642	1,899
M/S	10.5	9.6	9.5	10.3	10.5	9.9	11.2	12.2
Trust charge	324	278	343	335	2,189	1,280	1,411	1,550

Source: Company, DBS Vickers

Growth momentum to resume in 2014. We forecast Modetour's earnings (IFRS parent) will grow by 27% y-o-y to KRW22bn in FY14F, driven by the following: (i) 21% y-o-y increase in the number of outbound travel customers to 1.64m (assuming 7% industry growth and 1.3 ppt M/S gain), (ii) company-specific cost-saving measures (full implementation of volume incentive payout system or its franchise agents), (iii) a low base this year, and (iv) a larger share of higher-margin LCC product offerings.

Sales. Modetour's operating revenue is expected to expand at 9.1% CAGR over FY12-14F, supported by an 8.1% annual increase in the number of Korean outbound travellers (excluding airline employees). By leveraging on its scale and brand recognition – it is Korea's second largest travel agency - Modetour will continue to expand its market share by 0.3 ppt p.a. over the period (11.2% in FY14F vs. 10.5% in FY12).

We are comfortable with our forecast market share for Modetour as the projected growth is lower than its average growth for the past eight years. It is worth noting that the zero-commission policy by airlines and growing presence of LCCs in the domestic airline industry are making it increasingly easy for large scale travel services operators to extend customer reach.

Taking these onto account, the number of Modetour's outbound customers is estimated to reach 1.64m in 2014F, translating into 21% y-o-y growth compared to 1.36m in 2013F. The low base this year will also have a considerably positive impact.

Our projected revenue growth rate for Modetour is considerably below this at 12%, because;

- 1) The ASP of its outbound package products is projected to decline by 3% y-o-y to KRW1.26m over the period. This is premised on the growing share of cheaper LCC product offering, although this drop will be partly offset by a larger share of senior customers who prefer higher-priced packaged travel over FIT.
- 2) A larger (volume) share of lower-priced independent customised travel products will have an impact on the company's blended ASP.

Modetour is scheduled to upgrade its online sales platform (i.e. online search engine for travel and hotel bookings) in June 2014. Over the past two years, the online sales channel has been rapidly gaining ground in Korea as more travellers increasingly use this channel to customise travel options. The online sales platforms are also more convenient to access, which contributed to their ongoing success.

Fortunately, Modetour, although slow to push online business, is not far behind. Modetour already has its own

online search engine for travel and hotel booking, but the scheduled upgrade will make it more user-friendly and appeal to a larger audience.

Note that the online travel industry has low entry barriers in Korea. A travel operator who wishes to start an online sales platform in this low-margin segment only needs to hire the right company or people (e.g. programmer) to develop the travel search engine.

Modetour has been working with Topas, Korea's more popular developer of online sales portals for travel products, to upgrade its existing search engine. Modetour's upgraded search engine is designed to better synchronise with Korean Air's existing ticket reservation system. This is similar to how 'Hanafree' – Hana tour's recently introduced online sales portal - was specifically designed to accommodate Asiana's air ticket reservation system.

Nevertheless, to ultimately succeed in this business, the most important are the company's marketing ability and brand recognition. On this note, Modetour is better prepared than the rest. The company remains proactive in managing cash flows to ensure sufficient financial flexibility to spend on massive advertising campaigns for its online business. On top of this, as Korea's oldest wholesale travel operator, the company is second to none in Korea in terms of brand recognition. These give us confidence that Modetour has a high chance of succeeding in this rapidly growing segment.

Profit. We forecast Modetour's 2014 operating profit will reach KRW26bn for the parent unit, implying 27% growth over FY13F operating profit of KRW20bn. This will be driven by the following:

Low base effect and company-specific cost saving measures - full implementation of volume incentive payout system for franchise agents.

Starting next year, staff salaries will be switched to a performance-based system. Up to this year, salaries have been based on the number of years in employment. The new system – which management has been trying for years to implement - is more efficient at keeping overall costs in check.

The management finally came to an agreement with its labour union to implement the performance-based system next year, subject to the company raising overall salaries (one-off) by 10-15% this year.

As a result, salary expenses will be unusually high this year (rise by c.15%). This will crimp earnings for this year, but the annual increment should moderate back to c.5% from next year onwards. And as long as revenues continue to

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grow, the new pay system would be an effective cost-saving measure.

In addition, 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 pay less commission payments to agents who are not performing.

Its agents have requested the company give a one-year grace period before implementation - that ends 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 has agreed to this, which was reflected in the 20% y-o-y increase in commission expenses for 9M13.

Going into 2014, despite expected higher revenues, Modetour’s overall commission expenses are expected to drop by 4% y-o-y as the effective commission rate will drop back to c.33% and it would have reduced redundant costs.

The combined effect of this non-recurring transition cost and the better payout systems will play a key role in increasing next year’s operating profit. In fact, during our recent NDR with the company, management mentioned that it could have delivered c.20% y-o-y growth in operating profit this year if the transition cost was excluded.

Larger share of LCC product offerings and greater economies of scale to grow margins.

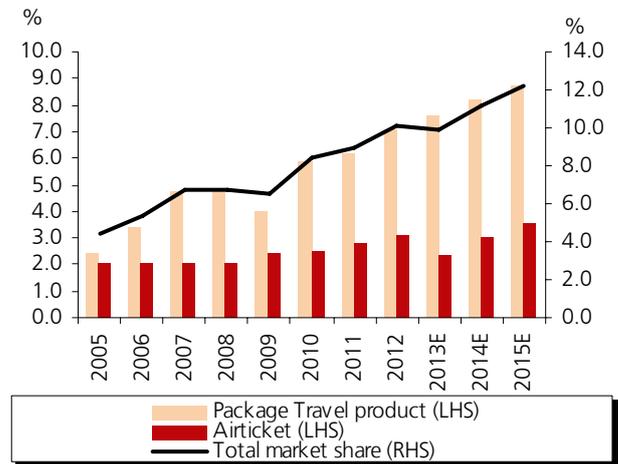
Besides non-recurring transition cost, margins will also improve driven by a larger share of LCC product offerings (expected to account for 18% of its total travel package offerings by FY14F; up 3 ppt y-o-y) and greater economies of scale in its operation.

Specifically, LCCs will continue to help wholesale travel agencies to grow margins, despite lower ASP. Currently, more than 80% of domestic LCCs sell international passenger seats through the leading wholesale travel agencies. For small airlines, nothing is more important than a high load factor to lift ROIs. And wholesale travel agencies have long proven to be the most efficient in generating mass sales.

Consequently, the wholesalers (i.e. Modetour and Hana Tour) have stronger negotiation power against the LCCs, which has allowed these agencies to secure higher margins than from the sale of packaged tours on flag carriers. Simply said, the travel package products’ gross margins could increase up to 22% when they are packaged with LCC seats (c.6ppt higher than Modetour’s traditional package product margins from dealing with flag carriers).

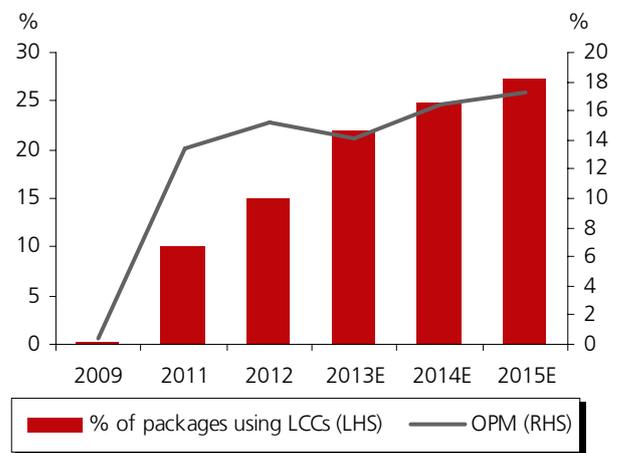
In all, we expect the benefits arising from a larger share of higher-margin LCC product offerings and greater economies of scale to offset the impact of weaker margins from the expected pickup in sales of low-margin online products.

15. Modetour: Market share trends



Source: Company, DBS Vickers

16. Modetour: LCC product offerings as a % of total package sales volume vs. OPM trends



Source: Company, DBS Vickers

17. Korea: Wholesale travel agents' operating revenue (gross profit) structure for outbound business

KRW bn	Package Travel	Air ticket sales (traditional)	Air ticket sales (New)
A. Trust Charge	100.0	100.0	100.0
B. Wholesale agency commission	16.0	9.0	
Commission rate (B/A, %)	16.0	9.0	
C. Agency commission to retailers	6.5	6.0	
Commission rate (C/A, %)	6.5	6.0	
D. Operating revenue (B-C)**	9.5	3.0	2.0***

Source: Company, DBS Vickers

Note: (New) Indicates current earnings structure after airlines introduced zero commission scheme. **Operating revenue = accounting gross profit in most industries. *** Currently, over 90% comes from volume incentives paid by airline companies.

Recommendation

Modetour's share price has corrected from a 12-month peak of KRW32,650 on 9 January to KRW21,800 currently. We attribute this to the following two factors:

First, the slowing earnings momentum has taken a toll on its share price. Despite solid revenue growth, the non-recurring transition cost (explained above), extraordinary cancellation of chartered flights in 1Q13, and weak 4Q13 business outlook, all point to flat y-o-y earnings growth for full year 2013.

Specifically, the weak operating environment this quarter has been largely due to Typhoon Haiyan in the Philippine and Thailand's ongoing political turmoil. While natural disasters or man-made catastrophes are nothing new to travel operators, it is still rare for two major events to happen simultaneously in the same region. ASEAN region accounts for the largest share of its revenue at 45%.

Second, the scheduled IPO of Interpark in 1Q14 has prompted many investors to take profit on large-scale wholesalers, i.e. Modetour and Hana Tour.

Interpark is a rapidly growing travel services provider that specialises in online travel search and reservations. One of Interpark's main investment pitches was its potential entry into the packaged travel segment which has long been dominated by Hana Tour and Modetour. This has created fears of a spike in competition in Korea's packaged travel segment. And this coincided with Modetour's disappointing 3Q earnings announcement, which was below market expectations. Consequently, there is doubt about the wholesale agents' growth potential and sustainability of operations with the entry of a formidable new player.

However, we believe these issues have been overplayed. First, we cannot ignore the misfortune the company has experienced this year, but earnings will remain resilient (flat y-o-y). More importantly, market expectations of its growth prospects should improve towards end 1Q14, when the company starts to again deliver strong y-o-y earnings growth supported by a low base effect, more efficient cost management, and benefits of greater economies of scale.

In addition, it is important to remember that although Modetour and Hana Tour have long (and aggressively) competed with each other in the packaged travel products segment, they had little interest to compete in independent customised travel (where an individual traveller books his preferred air tickets and hotels through an online search engine). This was due to: 1) weak profitability for this segment (c.3% OPM), and 2) low entry barriers. In fact, both companies have long believed they can easily enter this segment when it became necessary, but have voluntarily decided not to.

However, the customized travel market has recently been gaining strong sales traction (even at low margins), and both companies feel they can no longer delay investing in this segment. We also think wholesalers need to change their approach to this segment; they will be able to leverage on the rapidly rising demand to create new business opportunities, in the mid to long term.

More importantly, the entry barriers in Korea's travel package segment are high. For instance, several Korean conglomerates (i.e. 'Chaebols') had failed in attempts to enter this segment during the 1990s and early 2000s.

One of the major barriers is how the airlines allocate air tickets. They allocate hard blocks (i.e. selling 100-200 seats at a discount to travel services operators; no refund for unsold seat tickets) based on each travel agent's historical sales track record. The wholesale travel agencies generate profits from packaged travel products intrinsically through leveraging economies of scale. But given that the two travel services wholesalers have c.60% combined market share of outbound package tourism in Korea, in the short to mid run, new players are unlikely to be able to neutralise Modetour and Hana Tour's established cost advantage (i.e. greater economies of scale helps in managing risk of unsold air seats).

Equally important, airlines normally allocate more hard block tickets to agents that had purchased hard block tickets during the offseason. And no online sales portals have generated sizeable contribution to airlines during the offseason, because online sales portals so far only provide customised individual travel; there is a market for customised travel only if there is demand to start with.

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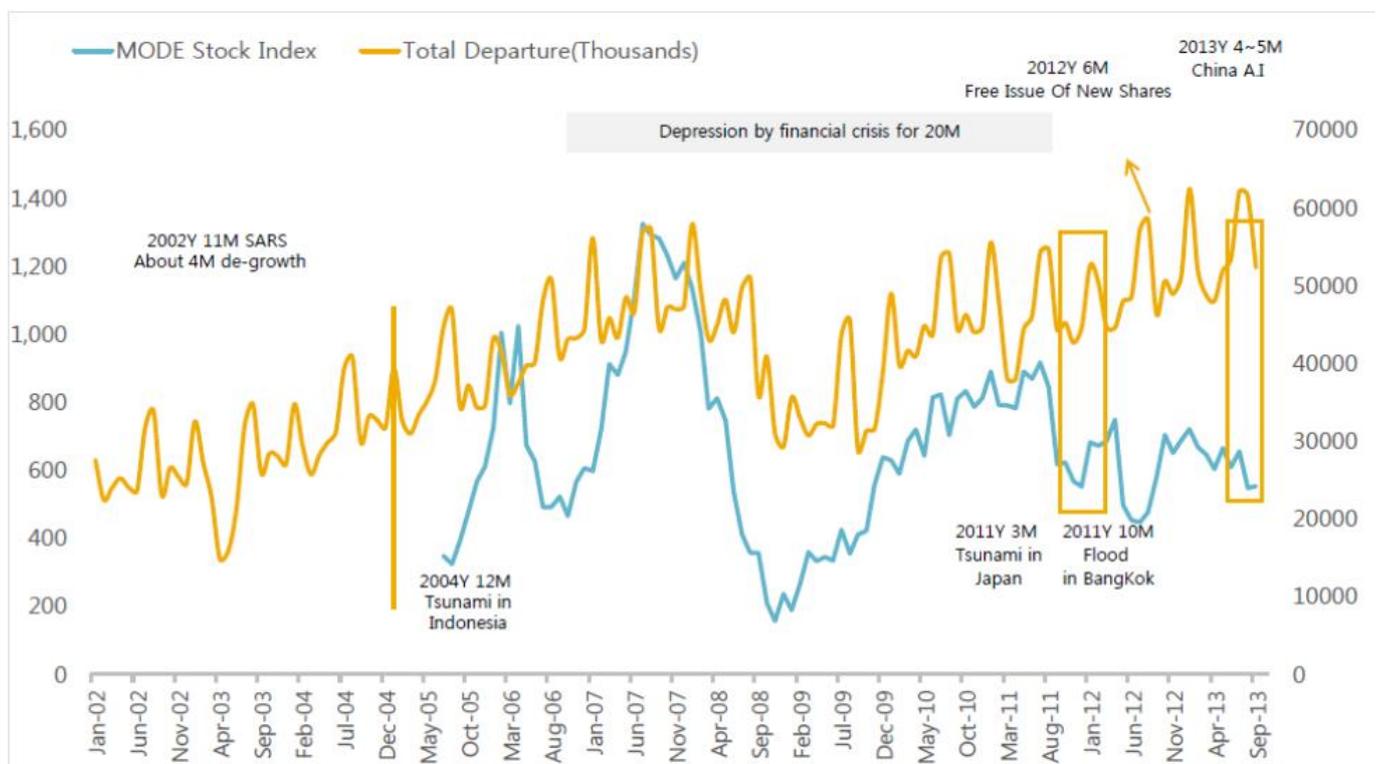
On the other hand, travel package products are recognised as effective in creating demand, even during the off-season, because of relatively competitive prices. The package products have created new demand by capturing a market that would otherwise not be able to afford to travel. Because of this difference, it is more difficult for an online travel service provider to secure stable flow of hard block seats from airlines.

In addition, most ground service providers (e.g. hotel operators) also distribute supply based on a travel agent’s historical sales track record. And records matter as hotel operators typically set different room discounts for each

travel agent. Simply said, a travel services operator cannot secure a steady supply of hotel rooms without a historical sales track record.

And the current practice is that, if an end-customer books a hotel room through a Korean online travel search engine, unlike how Expedia works in the Western markets, the sale is not booked under the online travel service provider. This is because hotel operators here mostly list their available hotel rooms on the internet sales portal and pay a small commission to the portal owner. This contrasts with the wholesalers’ practice of mass purchase of hotel rooms before they design their travel packages.

18. Number of outbound Korean travellers vs. Modetour shares



Source: Company, Bloomberg Finance L.P, DBS Vickers

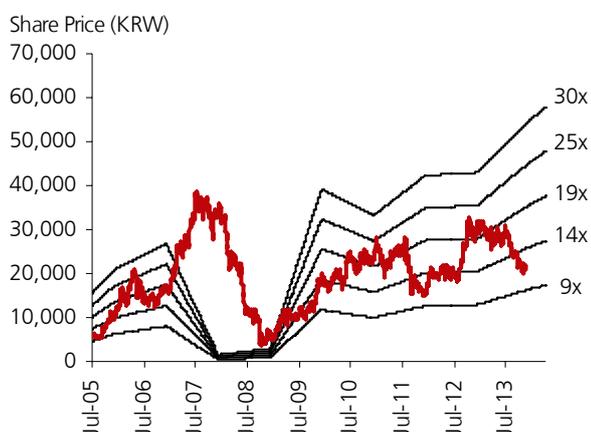
Modetour Networks

Maintain BUY, KRW33,000 TP. We cut FY13F consolidated net profit by 6% to KRW16bn after adjusting for weaker 4Q13 outlook. However, we lifted FY14F consolidated net profit by 10% to KRW23bn after factoring in 1) a stronger KRW (improves travellers' purchasing power overseas and reduces Modetour's ground service costs), 2) rapid normalisation of margins for inbound business (attributable to China government's new regulation to curb competition among inbound players; Modetour's inbound business OPM trend: 10% in 2012 -> -3% in 2013F -> 3% in 2014F -> 8% in 2015F) and earlier than expected launch of its upgraded online sales portal,

The stock is currently trading at only 12x FY14F P/E, near its 5-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). As a result, we believe the current share price is a good entry point. Stronger FY14 earnings, possible share buyback (cash-rich position), and a stronger KRW will renew interest in the stock.

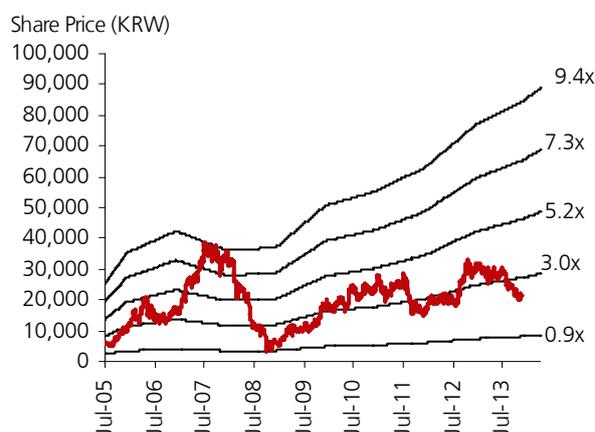
We value Modetour at KRW33,000/share, pegged to 18x FY14 P/E (IFRS parent) and implying 0.7X PEG. Our target P/E multiple is on par with its average P/E multiple for the last four years (excluding outliers). Our target price is intact as we only made mild adjustments to FY14 earnings (IFRS parent). Reiterate BUY recommendation.

PE band chart



Source: Thomson Reuters, DBS Vickers

PB band chart



Source: Thomson Reuters, DBS Vickers

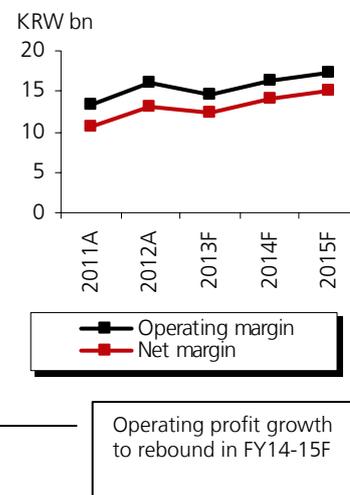
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Income Statement (KRW bn) (IFRS parent)

FY Dec	2011A	2012A	2013F	2014F	2015F
Operating Revenue	121	133	141	158	175
SG&A	(105)	(112)	(121)	(132)	(145)
Operating Profit	16	21	20	26	30
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Financial (Exp)/Inc	2	1	3	3	4
Exceptional Gain/(Loss)	-	-	-	-	-
Pre-tax Profit	18	22	23	29	34
Tax	(6)	(5)	(6)	(7)	(8)
Minority Interest	(1)	0	0	0	0
Net Profit	13	17	18	22	26
Net Profit before Except.	13	17	18	22	26
EBITDA	17	22	21	27	30
Sales Gth (%)	3.4	9.7	6.3	12.0	10.5
EBITDA Gth (%)	(7.4)	32.2	(5.1)	25.9	12.3
Opg Profit Gth (%)	(8.4)	32.0	(3.4)	27.0	16.0
Effective Tax Rate (%)	30.2	23.1	24.0	24.0	24.0

Source: Company, DBS Vickers

Margin Trends



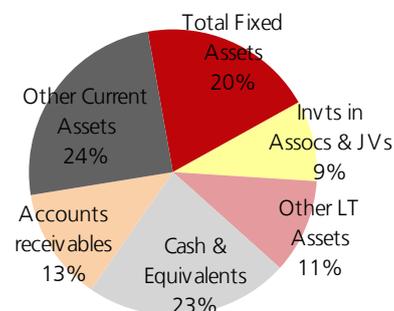
Source: Company, DBS Vickers

Balance Sheet (KRW bn) (IFRS parent)

FY Dec	2011A	2012A	2013F	2014F	2015F
Total Fixed Assets	25	35	42	41	43
Invts in Assocs & JVs	17	16	18	20	21
Other LT Assets	8	19	24	21	21
Cash & Equivalents	27	40	47	59	73
Accounts receivables	14	23	25	28	31
Other Current Assets	63	45	51	52	53
Total Assets	129	143	164	179	199
ST Debt	-	-	-	-	-
Trade payables	29	28	30	33	36
Other Current Liab	19	23	24	25	25
LT Debt	-	-	-	-	-
Other LT Liabilities	9	10	10	11	12
Shareholder's Equity	71	82	100	110	126
Total Cap. & Liab.	129	143	164	179	199
Chg. in Wkg. Cap	(1)	(2)	(2)	(0)	(0)
Net Debt (cash)	(27)	(40)	(47)	(59)	(73)

Source: Company, DBS Vickers

Asset Breakdown

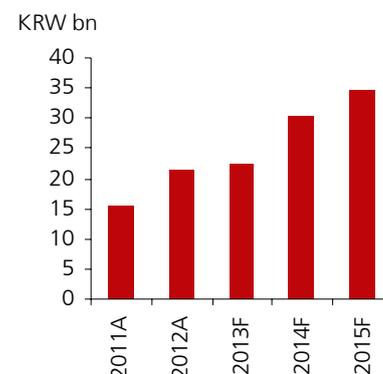


Source: Company, DBS Vickers

Cash Flow Statement (KRW bn) (IFRS parent)

Operating cashflow

FY Dec	2011A	2012A	2013F	2014F	2015F
Pre-Tax Profit	18	22	23	29	34
Dep. & Amort.	1	1	1	1	1
Tax Paid	6	5	6	7	8
Assoc. & JV Inc	-	-	-	-	-
Chg. in Wkg. Cap	(1)	(2)	(2)	(0)	(0)
Other Operating CF	(8)	(5)	(5)	(7)	(9)
Net Operating CF	15	22	23	30	35
Capital Exp. (net)	(1)	(1)	(1)	(2)	(2)
Investments	(10)	13	(2)	(1)	(2)
Other Investing CF	(1)	(13)	(8)	(8)	(8)
Net Investing CF	(11)	(2)	(10)	(11)	(12)
Div Paid	(5)	(4)	(6)	(7)	(9)
Chg in Gross Debt	-	-	-	-	-
Capital Issues	-	-	-	-	-
Other Financing CF	-	(3)	-	-	-
Net Financing CF	(5)	(7)	(6)	(7)	(9)
Net Cashflow	(1)	13	6	12	14
Beginning cash	28	27	40	47	59
End Cash	27	40	47	59	73



Cash flow to remain net positive

Source: Company, DBS Vickers

Source: Company, DBS Vickers

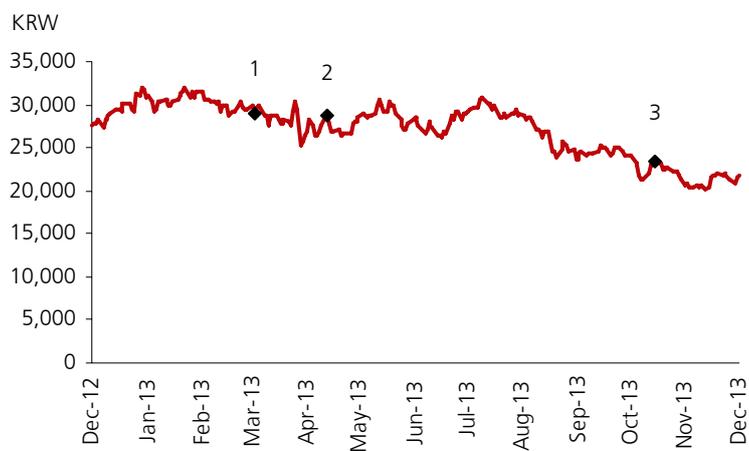
Rates and Ratio (IFRS parent)

FY Dec	2011A	2012A	2013F	2014F	2015F
Opg Profit Margin (%)	13.2	15.9	14.5	16.4	17.2
Net Profit Margin (%)	10.6	13.0	12.4	14.1	15.0
ROAE (%)	19.0	22.6	19.3	21.3	22.2
ROA (%)	10.1	12.7	11.4	13.0	13.9
ROCE (%)	11.8	15.0	13.5	15.1	15.9
Div Payout Ratio (%)	37.8	23.3	33.0	33.0	33.0
Interest Cover (x)	NM	NM	NM	NM	NM
Asset Turnover (x)	1.0	1.0	0.9	0.9	0.9
Debtors Turn (days)	42.6	63.6	64.0	64.5	65.0
Creditors Turn (days)	97.5	89.7	92.0	92.0	92.0
Current Ratio (x)	2.2	2.1	2.3	2.4	2.6
Quick Ratio (x)	2.2	2.1	2.3	2.4	2.6
Net Debt/Equity (X)	Net Cash				
Capex to Debt (%)	NA	NA	NA	NA	NA
Opg CFPS (KRW)	1,926	1,760	1,849	2,473	2,833
Free CFPS (KRW)	2,012	1,842	1,930	2,652	3,029

Source: Company, DBS Vickers

Modetour Networks

Target price & ratings history



S.No.	Date	Closing Price	Target Price	Rating
1:	12-Mar-13	KRW 29,900	KRW 38,000	Buy
2:	23-Apr-13	KRW 28,950	KRW 38,000	Buy
3:	25-Oct-13	KRW 23,250	KRW 33,000	Buy

Source: DBS Vickers

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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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