

# Modetour Network (080160)

Above

In line

Below

12M rating **BUY (Maintain)**  
 12M TP **W34,000** from W34,000  
 Up/downside **+45%**

## Stock Data

KOSPI (Jan 23, pt)	1,948
Stock price (Jan 23, KRW)	23,450
Market cap (USD mn)	275
Shares outstanding (mn)	13
52-Week high/low (KRW)	31,900/20,100
6M avg. daily turnover (USD mn)	2.6
Free float / Foreign ownership (%)	76.6/18.2
Major shareholders (%)	
Jong-Ung Woo and 6 others	17.9
National Pension Service (NPS)	5.3

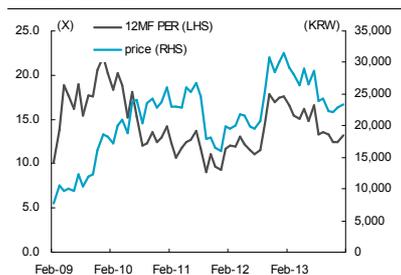
## Valuation

	2012A	2013F	2014F
PE (x)	20.9	18.5	12.9
PB (x)	4.0	2.8	2.5
ROE (%)	22.7	17.1	22.0
EV/EBITDA (x)	13.3	11.5	7.7
EPS (KRW)	1,437	1,239	1,817
BPS (KRW)	7,438	8,168	9,302

## Performance

	1M	6M	12M
Absolute (%)	3.3	(22.0)	(21.3)
Relative to KOSPI (%p)	5.8	(24.2)	(19.7)

## 12MF PE trend



Source: WISEfn consensus

## 4Q13 disappoints, but earnings to improve

### What's new: 4Q13 OP declines 17% YoY

Modetour Network (Modetour) posted 4Q13 separate sales of W34bn (+4.6% YoY) and OP of W3.7bn (-16.7% YoY), in line with our estimates (sales W33.6bn, OP W3.9bn). We attribute the sluggish results to poor travel demand to Japan on the ongoing radiation concerns. In addition, travel demand to some Southeast Asia destinations eroded at end-4Q13 due to typhoon Haiyan in the Philippines and instability in Thailand after the ouster of Prime Minister Thaksin Shinawatra. Meanwhile, travel commissions climbed 14% YoY on the introduction of a travel agency volume incentive policy. Moreover, advertising costs jumped 65% YoY on additional ad costs aimed at reinforcing brand value. As such, OPM eroded 2.8%p YoY to 10.9%. As the travel agency volume incentive policy wound down at the end of the year, we expect the related cost growth to normalize this year. Accordingly, Modetour should benefit from operating leverage effects in 2014.

### Pros: Solid travel demand to Europe and China

Modetour's total outbound traffic grew 4.4% YoY to 321,798, while package (PKG) traffic jumped 4.4% YoY to 222,639. By region, traffic to Europe increased 32% YoY thanks to growing sales through the home shopping channel, and traffic to China, including Taiwan and Hong Kong, grew 26% YoY on popular TV broadcasts. In 1Q14, a solid YoY reservation rate should continue for Europe and China. In addition, travel products to the South Pacific should post strong growth.

### Cons: Weak travel demand for Southeast Asia on natural disasters

Poor 4Q13 results were expected. We forecast sluggish earnings on less travel to the Philippines following Typhoon Haiyan in November, and to Thailand due to ongoing turmoil after the ouster of Prime Minister Thaksin. As Southeast Asia accounts for 47% of Modetour's outbound traffic, earnings were hit hardest by these negative factors. As such, 4Q13 market share slipped 0.1%p YoY to 9.8%.

### Conclusion: Maintain BUY as earnings should improve

We maintain BUY and a TP of W34,000 (18x 2014F PE). Our target PE reflects a 10% discount to the domestic and overseas travel sector average. Overseas travel demand should grow on higher income levels, more demand for leisure activities and favorable external conditions. We expect top-line growth from sustained growth at the package division, tour fair openings and expanding free independent tour (FIT) products, and bottom-line growth on normalizing operating costs. We forecast 2014F separate sales will grow 13% YoY and OP 20% YoY.

(W bn, %, %p)

(Separate)	4Q13P				Change		2014F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	34	34	1.1	34	(21.4)	4.6	161	159
OP	4	4	(4.0)	4	(58.4)	(16.7)	24	24
OP margin	11.5	10.9	-	11.6	-	-	14.0	15.2
EBT	4	4	(5.8)	5	(57.3)	(2.2)	27	27
NP	3	3	(1.5)	4	(55.3)	4.3	20	21

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**Table 1. Quarterly earnings (separate)**

(W bn, %, %p)

	4Q12	3Q13	4Q13P	QoQ	YoY	KIS	% differ.	Consensus	% differ.	1Q14F
Sales	32.5	43.3	34.0	(21.4%)	4.6%	33.6	1.1%	34.4	(1.2%)	40.7
Air-ticket	2.8	2.3	2.6	11.9%	(7.2%)	2.3	14.0%			2.5
Travel commission	27.4	38.7	28.7	(25.7%)	4.7%	28.9	(0.6%)			35.7
Others	2.2	2.3	2.7	16.6%	18.5%	2.4	10.0%			2.5
Operating expense	28.1	34.4	30.3	(11.9%)	8.0%	29.8	1.8%	30.4	(0.3%)	33.8
OP	4.4	8.9	3.7	(58.4%)	(16.7%)	3.9	(4.0%)	4.0	(7.6%)	7.0
OP margin	13.7	20.5	10.9	(9.6%p)	(2.8%p)	11.5	(0.6%p)	11.6	(0.8%p)	17.1
EBT	4.3	9.9	4.2	(57.3%)	(2.2%)	4.5	(5.8%)	4.8	(11.9%)	7.7
NP	3.2	7.6	3.4	(55.3%)	4.3%	3.4	(1.5%)	3.5	(3.4%)	5.9

Source: Company data, Korea Investment & Securities

**Table 2. Annual earnings (separate)**

(W bn, %, %p)

	2012	2013F	YoY	2014F	YoY	2015F	YoY
Sales	132.7	143.1	7.9%	161.5	12.8%	177.2	9.7%
Air-ticket	11.9	9.7	(18.6%)	9.8	0.9%	10.3	5.2%
Travel commission	113.2	123.8	9.4%	141.2	14.0%	155.7	10.3%
Others	8.0	10.5	30.5%	10.5	0.2%	11.2	6.5%
Operating expense	111.8	123.1	10.1%	137.5	11.7%	148.9	8.3%
OP	20.8	20.0	(4.0%)	24.0	19.9%	28.3	18.0%
OP margin	15.7	14.0	(1.7%p)	14.9	0.9%p	16.0	1.1%p
EBT	22.2	22.8	2.3%	26.8	17.9%	31.2	16.3%
NP	17.1	17.6	2.8%	20.5	16.5%	23.9	16.3%

Source: Company data, Korea Investment & Securities

**Table 3. Consolidated earnings**

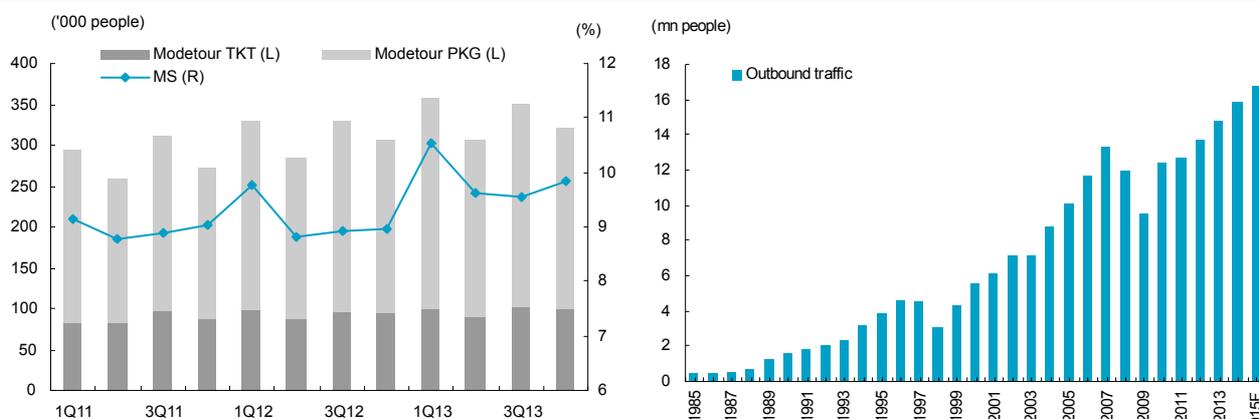
(W bn, %, %p)

	4Q12	3Q13	4Q13F	QoQ	YoY	2012	2013F	YoY	2014F	YoY	2015F	YoY
Sales	34.0	43.9	36.1	(17.8%)	6.3%	137.6	147.1	7.0%	167.1	13.5%	184.2	10.2%
Operating expense	29.3	36.7	32.5	(11.5%)	11.1%	116.3	131.6	13.1%	143.1	8.8%	154.7	8.1%
OP	4.7	7.2	3.6	(49.7%)	(23.2%)	21.3	15.6	(26.7%)	24.0	53.8%	29.5	23.0%
OP margin	13.9	16.4	10.0	(6.4%p)	(3.8%p)	15.5	10.6	(4.9%p)	14.4	3.8%p	16.0	1.7%p
EBT	4.6	8.4	4.9	(41.0%)	8.2%	23.0	20.1	(12.7%)	28.9	43.7%	34.8	20.7%
NP	3.4	6.2	3.8	(38.3%)	12.0%	17.6	15.0	(14.9%)	21.9	46.1%	26.5	20.7%

Note: 4Q13 and 2013 consolidated earnings are KIS estimates as they have yet to be released

Source: Company data, Korea Investment & Securities

**Figure 1. Quarterly outbound traffic and market share Figure 2. Outbound traffic and outlook**



Source: Korea Investment & Securities

Source: Korea Tourism Organization, Korea Investment & Securities

**Company overview & Glossary**

Modetour Network provides a wide range of travel services, established in 1989 and listed on Kosdaq market on July 2005. Modetour is taking an sales approach for in-direct sales (wholesales) through agencies. Consolidated subsidiaries are 5 companies including Mode Tourism development, Modetour H&D, Modetour International, Cruise International and Tourtainment.

- Outbound travel: Overseas departure of domestic residents
- Inbound travel: Domestic arrival of international travelers

**Balance sheet**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Current assets	112	115	128	149	168
Cash & cash equivalent	28	42	46	53	61
Accounts & other receivables	19	28	29	33	37
Inventory	0	0	0	0	0
Non-current assets	24	33	35	43	47
Investment assets	16	16	17	20	22
Tangible assets	1	10	10	14	14
Intangible assets	1	1	1	2	2
Total assets	136	149	163	192	214
Current liabilities	52	55	60	72	76
Accounts & other payables	35	34	38	43	44
ST debt & bond	0	0	0	0	0
Current portion of LT debt	0	0	0	0	0
Non-current liabilities	10	10	10	12	12
Debentures	0	0	0	0	0
LT debt & financial liabilities	1	1	1	1	1
Total liabilities	62	65	70	84	88
Controlling interest	72	83	92	106	125
Capital stock	4	6	6	6	6
Capital surplus	30	28	28	28	28
Capital adjustments	(8)	(11)	(11)	(11)	(11)
Retained earnings	45	59	68	82	100
Minority interest	2	1	1	1	1
Shareholders' equity	73	84	93	108	126

**Cash flow**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
C/F from operating	15	22	18	28	24
Net profit	14	18	15	22	26
Depreciation	1	1	2	2	2
Amortization	0	0	0	0	0
Net incr. in W/C	(2)	(1)	0	2	(5)
Others	2	4	1	2	1
C/F from investing	(11)	(1)	(6)	(14)	(9)
CAPEX	(1)	(10)	(2)	(6)	(2)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	(9)	9	(1)	(2)	(2)
Net incr. in intangible assets	(1)	(0)	(1)	(1)	(1)
Others	0	0	(2)	(5)	(4)
C/F from financing	(5)	(7)	(7)	(6)	(8)
Incr. in equity	0	0	0	0	0
Incr. in debts	0	(1)	(2)	0	0
Dividends	(5)	(4)	(5)	(6)	(8)
Others	0	(2)	0	0	0
C/F from others	(0)	(0)	0	0	0
Increase in cash	(1)	14	4	8	7

Note: Based on K-IFRS (consolidated)

**Income statement**

FY-ending Dec. (W bn)	2011A	2012A	2013F	2014F	2015F
Sales	125	138	147	167	184
COGS	0	1	0	0	0
Gross profit	125	137	147	167	184
SG&A expense	109	115	132	143	155
Operating profit	16	21	16	24	30
Financial income	2	2	2	2	2
Interest income	2	2	2	2	2
Financial expense	0	0	0	0	0
Interest expense	0	0	0	0	0
Other non-operating profit	1	(0)	3	3	3
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	19	23	20	29	35
Income taxes	5	5	5	7	8
Net profit	14	18	15	22	26
Net profit of controlling interest	14	18	15	22	26
Other comprehensive profit	(0)	0	0	0	0
Total comprehensive profit	13	18	15	22	27
Total comprehensive profit of controlling interest	13	18	15	22	27
EBITDA	17	23	18	26	32

**Key financial data**

FY-ending Dec.	2011A	2012A	2013F	2014F	2015F
per share data (KRW)					
EPS	1,108	1,437	1,239	1,817	2,193
BPS	9,517	7,438	8,168	9,302	10,747
DPS	500	450	500	650	700
Growth (%)					
Sales growth	2.6	10.3	6.7	13.5	10.2
OP growth	0.5	31.6	(26.7)	53.8	23.0
NP growth	(8.8)	29.7	(14.9)	46.1	20.7
EPS growth	(40.1)	29.7	(13.8)	46.6	20.7
EBITDA growth	1.7	31.0	(21.9)	49.5	22.2
Profitability (%)					
OP margin	12.9	15.4	10.6	14.4	16.0
NP margin	10.8	12.7	10.2	13.1	14.3
EBITDA margin	13.8	16.4	12.0	15.8	17.5
ROA	10.4	12.4	9.6	12.4	13.0
ROE	20.0	22.7	17.1	22.0	22.8
Dividend yield	3.1	1.5	2.2	2.8	3.0
Stability					
Net debt (W bn)	(64)	(63)	(72)	(85)	(98)
Debt/equity ratio (%)	18.7	20.0	15.8	13.7	11.7
Valuation (X)					
PE	14.5	20.9	18.5	12.9	10.7
PB	1.7	4.0	2.8	2.5	2.2
PS	1.1	2.8	2.0	1.8	1.6
EV/EBITDA	7.8	13.3	11.5	7.7	5.8

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target
Modetour Network (080160)	12-14-12	BUY	W40,300
	10-18-13	BUY	W34,000



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- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of -15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

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Prepared by: Minha Choi

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