

Regional Result Snapshot

Modetour Networks

Bloomberg: 080160 KS | Reuters: 080160.KS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

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BUY KRW23,450 KOSDAQ: 522.7

Price Target : 12-Month KRW 33,000

Analyst

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Result Summary

FY Dec (KRW bn)	4Q2013	4Q2012	yoy chg	2013	yoy chg
P&L Items					
Turnover	34.0	32.5	4.6%	143.1	7.8%
Opg Profit	3.7	4.4	-16.7%	20.0	-5.4%
Pretax Profit	4.2	4.3	-2.2%	22.8	1.4%
Net Profit	3.4	3.2	4.3%	18.2	5.5%
Other Data					
Opg Margin (%)	10.9	13.7		14.0	
Pretax Margin (%)	12.4	13.3		15.9	
Net Margin (%)	9.9	10.0		12.7	

*Ex-minority

Financial Summary

FY Dec (KRW bn)	2012A	2013F	2014F	2015F
Turnover	133	143	158	175
EBITDA	22	21	27	30
Pretax profit	22	23	29	34
Net Profit	17	18	22	26
Adjusted Net Profit	18	17	23	27
EPS (KRW)	1,410	1,487	1,823	2,142
Adjusted EPS (KRW)	1,449	1,348	1,866	2,190
Adjusted EPS Gth (%)	34.0	-7.0	38.4	17.4
BV Per Share (KRW)	6,695	8,143	9,015	10,311
DPS (KRW)	450	450	600	700
PE Pre Ex. (X)	16.2	17.4	12.6	10.9
EV/EBITDA (X)	8.8	11.5	8.5	7.1
Net Div Yield (%)	1.9	1.9	2.6	3.0
P/Book Value (X)	3.5	2.9	2.6	2.3
ROAE (%)	22.6	19.3	21.3	22.2

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

At A Glance

Issued Capital (m shrs)	13
Mkt. Cap (KRWbn/US\$m)	295/ 275
Avg. Daily Vol.('000)	0.1

Price Relative



Source: Company, DBS Vickers

Off to a new start

- **4Q13 profit in line**
- **Stronger earnings ahead**
- **Maintain BUY and TP of KRW33,000**

Highlights

Modetour posted 4Q13 revenues of KRW34bn (IFRS parent; +5% y-o-y), OP of KRW3.7bn (-17% y-o-y), and NP of KRW3.4bn (+4% y-o-y). For the full year, the company recorded revenue and NP of KRW143bn (+8% y-o-y) and KRW18.2bn (+6% y-o-y) respectively. 4Q13 NP was in line with our estimates, as stronger-than-expected revenue offset the lower profit margin. As widely expected, the decline in OP was 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 disruptions to happen simultaneously in the same region. The ASEAN region accounts for the largest share of its revenue at 45%. On a positive note, the company's latest orderbook shows many customers of its package products, who previously postponed their trip to Thailand and started to head to different ASEAN countries. In addition, a one-time transition cost (KRW1.1bn) that was related to the company's incentive payment system to franchises also took a toll on profits.

Our View

Expect strong FY14 earnings. We forecast Modetour's earnings (IFRS parent) to jump 23% y-o-y to KRW22bn in FY14F; driven by: (i) A 15% jump in the number of outbound travellers to 1.1m (supported by a 6.7% y-o-y growth in industry demand and forthcoming upgrade of its online sales platform), (ii) Company specific cost-saving measures – e.g. scheduled full implementation of volume incentive payout system for its franchise agents and switch of staff salaries to a performance based system, (iii) Low base last year, and (iv) A larger share of higher-margin LCC product offerings (expected to account for 18% of its total travel package offerings in 2014F; +3ppts y-o-y).

Recommendation

Maintain BUY and TP of KRW33,000. We recently raised FY14F consolidated net profit by 10% to KRW23bn after imputing: 1) A stronger KRW (improving travellers' purchasing power overseas and reducing 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 12.6x FY14F PE, comfortably lower than its 5-year average, implying the negatives have been priced in. It is a good entry point now, as stronger FY14 earnings, possible share buyback, and a stronger KRW will renew interest in the stock.

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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)

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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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