

Regional Company Focus

Modetour Networks

Bloomberg: 080160 KS Equity | Reuters: 080160.KS

Refer to important disclosures at the end of this report

DBS Group Research. Equity

11 July 2014

BUY KRW 24,200 KOSDAQ: 559.3

Price Target : 12-month KRW 35,000 (Prev KRW31,000)

Reason for Report : Company update / Post conference takeaways

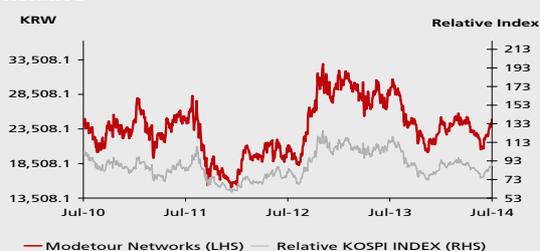
Potential Catalysts: (i) Solid earnings growth over FY14-16F, and (ii) compelling valuations, (iii) stronger KRW, and (iv) Gaining market share with online sales platform upgrade.

DBSV vs Consensus: Our FY14F consolidated NP is 7% higher.

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (KRW bn)	2013A	2014F	2015F	2016F
Operating Revenue	143	167	177	197
EBITDA	21	26	30	34
Pre-tax Profit	23	28	33	36
Net Profit	18	21	25	27
Net Pft (Pre Ex.)	18	21	25	27
Adjusted Net Pft (Pre Ex.)*	16	20	25	28
EPS (KRW)	1,456	1,747	2,024	2,243
Diluted EPS (KRW)	1,456	1,747	2,024	2,243
EPS Gth (%)	3.2	20.0	15.9	10.8
Adjusted EPS (KRW)	1,317	1,608	2,008	2,291
DPS (KRW)	450	550	600	700
BV Per Share (KRW)	7,360	7,984	8,701	10,368
PE (X)	16.9	14.1	12.2	11.0
Adjusted PE (X)	18.7	15.3	12.3	10.7
P/Cash Flow (X)	18.1	11.9	9.8	8.4
EV/EBITDA (X)	12.7	10.0	8.1	6.8
Net Div Yield (%)	1.8	2.2	2.4	2.8
P/Book Value (X)	3.3	3.1	2.8	2.4
Net debt (cash)	(35)	(42)	(56)	(74)
ROAE (%)	20.7	22.8	24.3	23.5
Earnings Rev (%)		(4.1)	4.2	6.1
Consensus EPS (KRW)		1,623	1,870	2,118
No. of brokers following		B:18	S:0	H:3

* 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 Bank, Bloomberg Finance L.P

Beneficiary of strong KRW

- Sound fundamentals with multiple growth drivers
- Improving growth prospects from 2Q14
- Maintain BUY; raised TP to KRW35,000

Solid revenue growth ahead. Despite flat y-o-y growth in the number of outbound travel customers, we expect the company to see a 17% increase in FY14 operating revenue to KRW167bn (IFRS parent). This would be led by higher ASP (KRW1.0m per package; +4% y-o-y; increasing share of EU-bound travel packages) and a stronger KRW.

Strong KRW to drive growth. All things being equal, a stronger KRW will be positive for Modetour – especially for outbound travel packages (accounting for c.85% of its total profit) – as it would have to pay less (KRW) for overseas services. For outbound travel packages, Korean wholesale travel services operators typically book c.16% of customer receipts (mostly in KRW) as operating revenues, 52% is spent on air fares (mostly in KRW) and 32% on overseas ground services (e.g. hotel accommodation; mostly in US\$). But if the exchange rate hovers at KRW1,000:1USD, overseas ground service expenses would be about 30% of the price of its travel packages. This means the company would book up to 18% of receipts as operating revenues instead of 16%, and could rise if the won strengthened further.

Margin expansion on track. We expect operating margin to improve by 1.0 ppt y-o-y to 14.8% in FY14. This would be driven by (i) company-specific cost-saving measures (i.e. full implementation of performance-based payout system for its employees and franchise agents), (ii) a low base last year, (iii) a larger share of higher-margin LCC package products, and (iv) a stronger KRW.

Maintain BUY, raised TP to KRW35,000. We raise FY15F/16F consolidated net profit by 4%/6% to KRW25bn/KRW28bn after imputing a stronger-than-expected KRW – although the impact was partly offset by slower-than-expected turnaround of its inbound business. In addition, we rolled over our valuation base to blended FY14F/15F earnings (from FY14F). These led to a higher TP of KRW35,000 (from KRW31,000). Reiterate our BUY call.

At A Glance

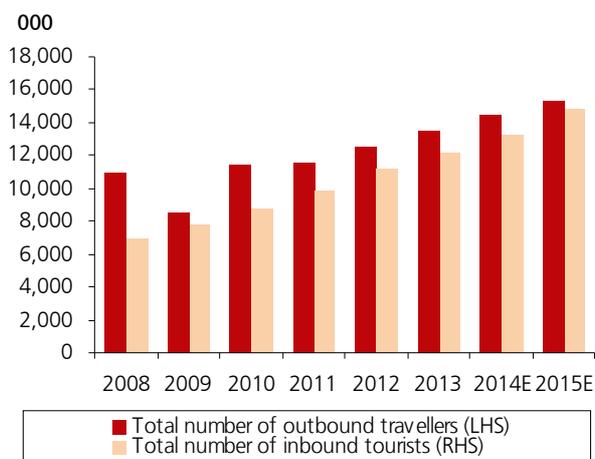
Issued Capital (m shrs)		13
Mkt Cap (KRWbn/US\$m)	310	/ 306
Major Shareholders (%)		
Jong-Woong Woo		17.93
Shinhan BNP Paribas Asset Mgmt		6.86
National Pension Service		6.45
Free Float (%)		68.76
Avg Daily Volume (m shrs)		0.1

Modetour Networks**1. Modetour: Earnings trends and forecasts (IFRS parent)**

KRW (bn)	2Q13	1Q14	2Q14E	2012	2013	2014E	2015E	2016E
Operating Revenue	30	40	34	133	143	167	177	197
Package sales	26	34	29	113	124	146	154	172
Air ticket sales	2	2	2	12	10	10	11	13
Others	2	3	3	8	10	12	12	13
SG & A	28	34	31	112	123	142	148	165
Operating profit	2	5	3	21	20	25	29	32
Operating margin %	6.0	12.8	9.5	15.9	13.8	14.8	16.4	16.4
Non operating profit	1	2	0	1	3	3	4	4
Pretax profit	2	7	3	22	23	28	33	36
Net profit	2	6	3	17	18	21	25	27
Net margin %	6.4	14.5	7.6	13.0	12.5	12.8	14.0	13.9
y-o-y growth %	-17.8	20.6	34.5	30.2	3.2	20.0	15.9	10.8
Key assumptions								
Total travellers (000)	3,177	3,610	3,390	12,550	13,525	14,451	15,342	16,246
Mode Tour customers (000)	306	368	359	1,312	1,336	1,590	1,872	2,128
M/S (%)	9.6	10.2	10.6	10.5	9.9	11.0	12.2	13.1
Trust charge	280	325	311	2,189	1,237	1,363	1,498	1,633

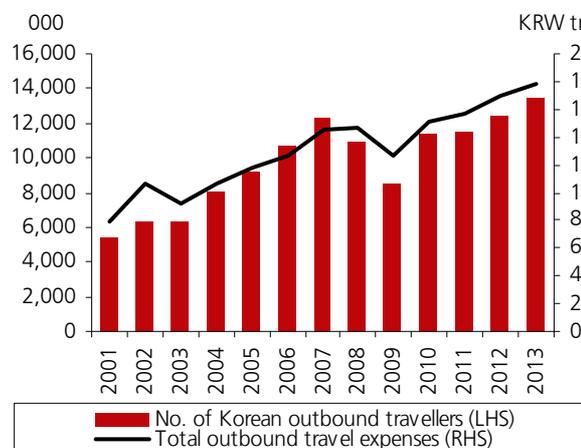
Source: Company, DBS Bank

2. Korea: Outbound & Inbound travel demand



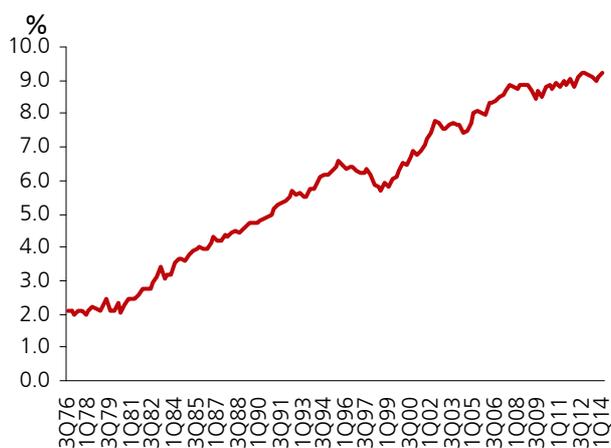
Source: Korea Tourism Organisation, Bank of Korea

3. Korea: No. of outbound travellers & total outbound travel expenses



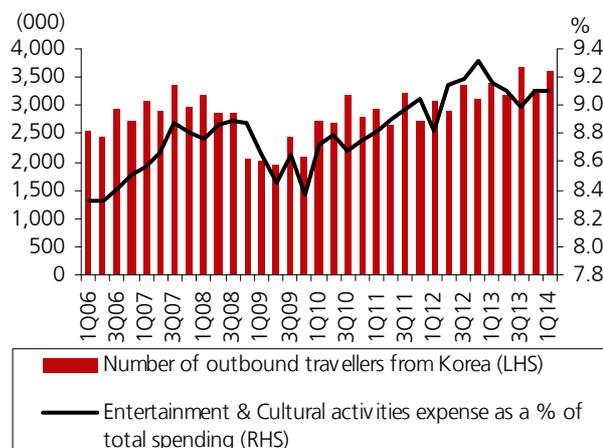
Source: Korea Tourism Organisation, Bank of Korea

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



Source: Bank of Korea

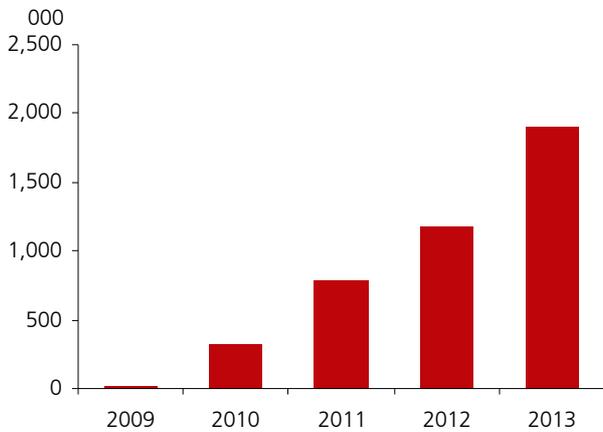
5. Korea: No. of outbound travellers vs. entertainment & cultural activities expenses as a % of consumer spending



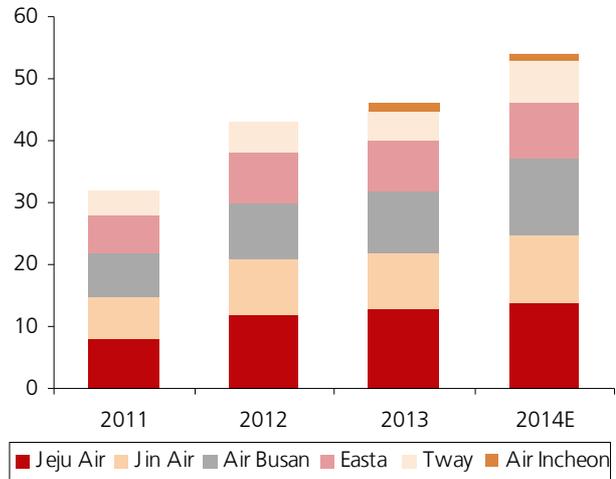
Source: Korea Tourism Organisation, Bank of Korea

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6. Korea: No. of LCC passengers (international flights only) 7. Korea: Total LCC fleet (passenger only) for domestic operators

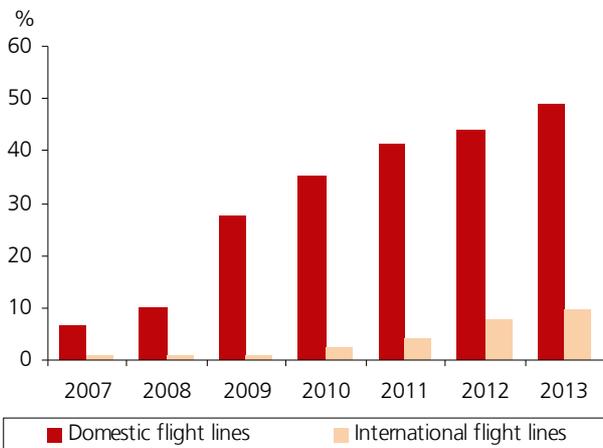


Source: Ministry of Land, Infrastructure, and Transport, Company



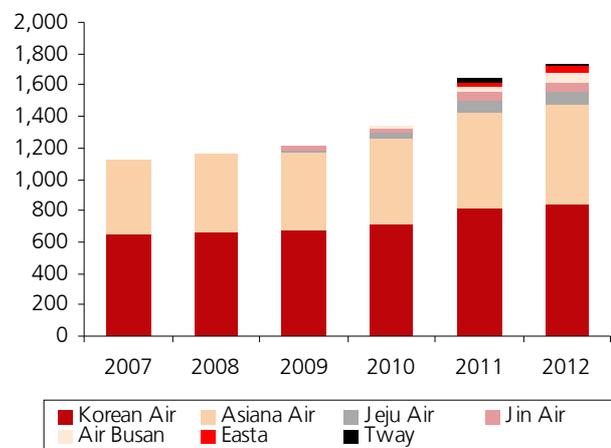
Source: Ministry of Land, Infrastructure, and Transport, Company

8. Korea: LCC market share trends (passenger only) for domestic operators



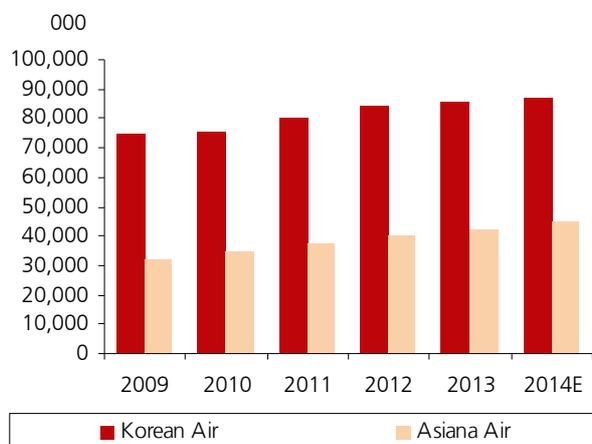
Source: Ministry of Land, Infrastructure, and Transport, Company

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



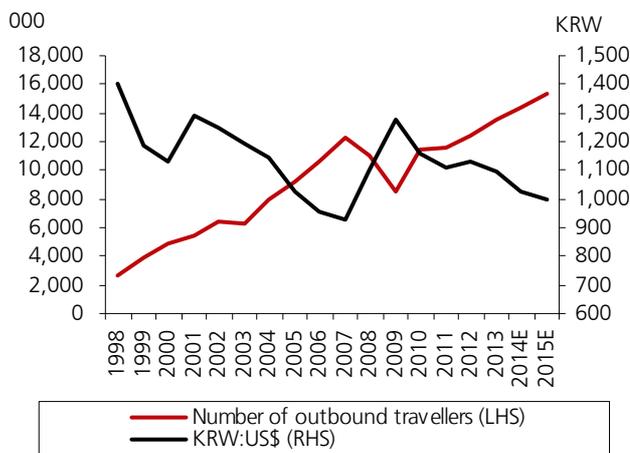
Source: Ministry of Land, Infrastructure, and Transport, Company

10. Korea: Korea Air & Asiana Airline's ASK trends (passenger only)



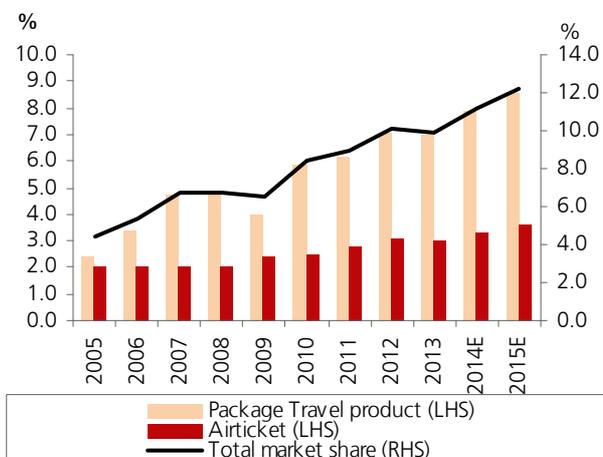
Source: Ministry of Land, Infrastructure, and Transport, Company, DBS Bank

11. Modetour: Korea: No. of outbound travellers vs. KRW:US\$ trends



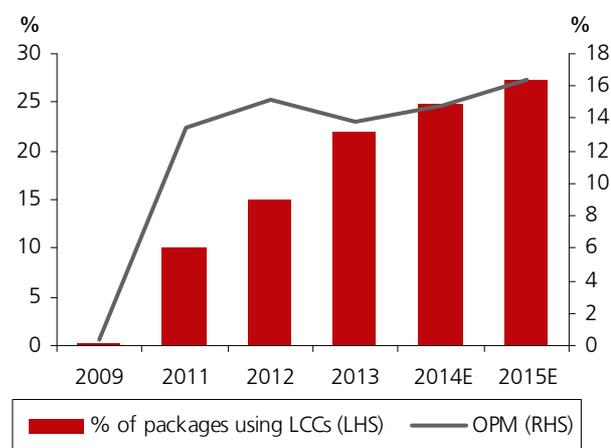
Source: Korea Tourism Organisation, Bloomberg Finance L.P., DBS Bank

12. Modetour: Market share trends



Source: Company, DBS Bank

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



Source: Company, DBS Bank

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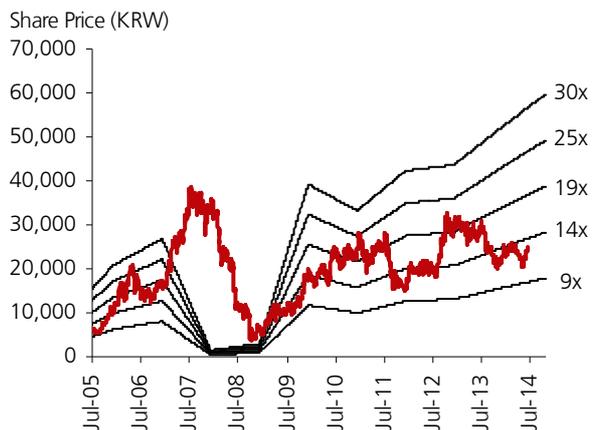
14. Korea: Wholesale travel agents' operating revenue structure for outbound business

KRW bn	Package Travel	Air ticket sales (traditional)	Air ticket sales (New)
A. Total money received from customers	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 Bank.

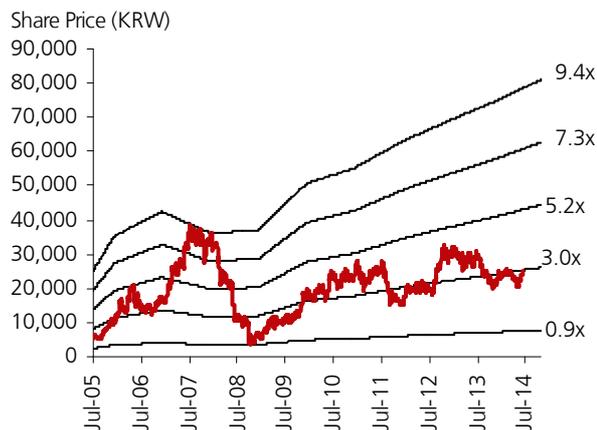
Note: (New) Indicates earnings structure after airlines introduced zero commission schemes. **Operating revenue = accounting gross profit in most industries. *** Currently, over 90% comes from volume incentives paid by airline companies.

15. PE band chart



Source: Thomson Reuters, DBS Bank

16. PB band chart



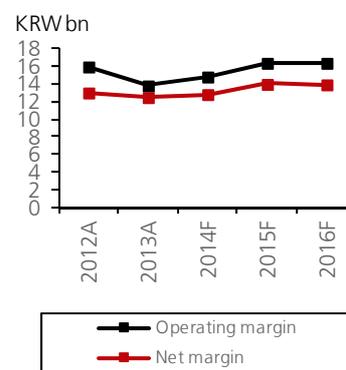
Source: Thomson Reuters, DBS Bank

Income Statement (KRW bn)

FY Dec	2012A	2013A	2014F	2015F	2016F
Operating Revenue	133	143	167	177	197
SG&A	(112)	(123)	(142)	(148)	(165)
Operating Profit	21	20	25	29	32
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Financial (Exp)/Inc	1	3	3	4	4
Exceptional Gain/(Loss)	-	1	-	-	-
Pre-tax Profit	22	23	28	33	36
Tax	(5)	(5)	(7)	(8)	(9)
Minority Interest	0	1	0	0	1
Net Profit	17	18	21	25	27
Net Profit before Except.	17	18	21	25	27
EBITDA	22	21	26	30	34
Sales Gth (%)	9.7	7.6	16.9	6.2	11.3
EBITDA Gth (%)	30.5	(5.4)	24.0	16.5	10.8
Opg Profit Gth (%)	32.0	(6.8)	25.4	17.4	11.3
Effective Tax Rate (%)	23.1	22.7	24.0	24.0	24.0

Source: Company, DBS Bank

Margin Trends

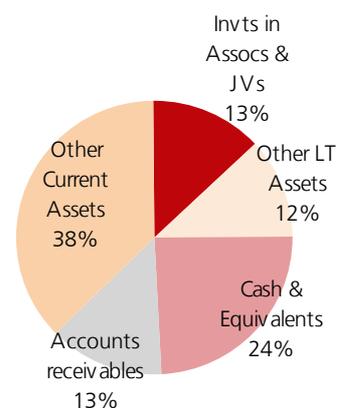


Balance Sheet (KRW bn)

FY Dec	2012A	2013A	2014F	2015F	2016F
Total Fixed Assets	35	37	40	33	35
Invts in Assocs & JVs	16	19	23	24	26
Other LT Assets	19	18	17	9	9
Cash & Equivalents	40	35	42	56	74
Accounts receivables	23	20	30	32	36
Other Current Assets	45	55	52	53	54
Total Assets	143	147	163	173	200
ST Debt	-	-	-	-	-
Trade payables	28	31	36	36	40
Other Current Liab	23	21	24	25	27
LT Debt	-	-	-	-	-
Other LT Liabilities	10	5	5	6	6
Shareholder's Equity	82	90	98	106	127
Total Cap. & Liab.	143	147	163	173	200

Source: Company, DBS Bank

Asset Breakdown



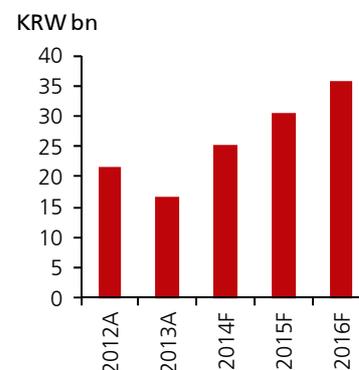
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Cash Flow Statement (KRW bn)

FY Dec	2012A	2013A	2014F	2015F	2016F
Pre-Tax Profit	22	23	28	33	36
Dep. & Amort.	1	1	1	1	1
Tax Paid	5	5	7	8	9
Assoc. & JV Inc	-	-	-	-	-
Chg. in Wkg. Cap	(11)	(7)	(5)	(3)	(1)
Other Operating CF	4	(5)	(6)	(8)	(9)
Net Operating CF	22	17	25	31	36
Capital Exp. (net)	(1)	(1)	(2)	(2)	(2)
Investments	13	(3)	(3)	(2)	(2)
Other Investing CF	(13)	(8)	(6)	(5)	(4)
Net Investing CF	(2)	(12)	(12)	(10)	(9)
Div Paid	(4)	(5)	(7)	(8)	(8)
Chg in Gross Debt	-	1	-	-	-
Capital Issues	-	-	-	-	-
Other Financing CF	(3)	(5)	-	-	-
Net Financing CF	(7)	(10)	(7)	(8)	(8)
Net Cashflow	13	(5)	7	13	19
Beginning cash	27	40	35	42	56
End Cash	40	35	42	56	74

Source: Company, DBS Bank

Operating cashflow

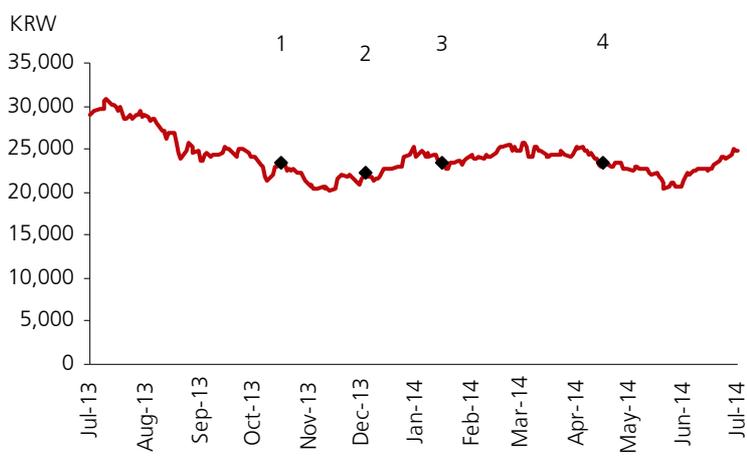


Rates and Ratio

FY Dec	2012A	2013A	2014F	2015F	2016F
Opg Profit Margin (%)	15.9	13.8	14.8	16.4	16.4
Net Profit Margin (%)	13.0	12.5	12.8	14.0	13.9
ROAE (%)	22.6	20.7	22.8	24.3	23.5
ROA (%)	12.7	12.3	13.8	14.7	14.7
ROCE (%)	15.0	14.5	16.1	17.2	17.1
Div Payout Ratio (%)	23.3	30.7	30.6	30.6	30.6
Interest Cover (x)	NM	NM	NM	NM	NM
Asset Turnover (x)	1.0	1.0	1.1	1.1	1.1
Debtors Turn (days)	63.6	50.2	64.5	65.0	67.0
Creditors Turn (days)	89.1	87.9	92.0	89.0	88.0
Current Ratio (x)	2.1	2.1	2.1	2.3	2.5
Quick Ratio (x)	2.1	2.1	2.1	2.3	2.5
Net Debt/Equity (X)	Net Cash				
Capex to Debt (%)	NA	NA	NA	NA	NA
Opg CFPS (KRW)	1,760	1,358	2,066	2,499	2,919
Free CFPS (KRW)	1,842	1,440	2,245	2,696	3,115

Source: Company, DBS Bank

Target price & ratings history



S.No.	Date	Closing Price	Target Price	Rating
1:	25-Oct-13	KRW 23,250	KRW 33,000	Buy
2:	12-Dec-13	KRW 21,800	KRW 33,000	Buy
3:	24-Jan-14	KRW 23,450	KRW 33,000	Buy
4:	25-Apr-14	KRW 23,000	KRW 31,000	Buy

Source: DBS Bank

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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