

Above
In line
Below

Modetour Network (080160)

12M rating **BUY (Maintain)**
 12M TP **W50,000** from W50,000
 Up/downside **+28%**

Stock Data

KOSPI (Aug 4, pt)	2,028
Stock price (Aug 4, KRW)	39,100
Market cap (USD mn)	423
Shares outstanding (mn)	13
52-Week high/low (KRW)	43,150/19,050
6M avg. daily turnover (USD mn)	4.5
Free float / Foreign ownership (%)	76.5/26.0
Major shareholders (%)	
Jong-Ung Woo and 7 others	17.9
JF Asset Management Limited and 1 others	5.2

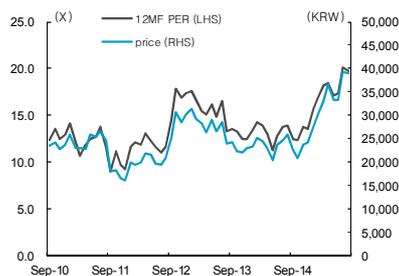
Valuation

	2014A	2015F	2016F
PE (x)	18.9	22.1	20.5
PB (x)	2.7	3.9	3.6
ROE (%)	16.3	20.3	19.5
EV/EBITDA (x)	12.7	12.8	11.0
EPS (KRW)	1,278	1,768	1,909
BPS (KRW)	8,962	9,936	10,986

Performance

	1M	6M	12M
Absolute (%)	7.1	33.4	63.6
Relative to KOSPI (%p)	10.8	30.1	66.1

12MF PER trend



Source: WISEfn consensus

Well-defended 2Q15; Improvement to continue

What's new: OP grew 136% YoY

Modetour Network (Modetour)'s 2Q15 results met the consensus and our estimates. Consolidated sales grew 36.1% YoY to W49.6bn and OP 135.9% to W5bn. With brisk package and ticket sales, Modetour's total outbound traffic expanded 43% YoY, resulting in separate sales growing 23% YoY to W43.8bn and OP 63% YoY to W6.3bn. Of note, Modetour began booking Jautour earnings on a consolidated basis from 2Q15 after integrating the travel agency as a subsidiary in April by acquiring an 84.2% stake.

Pros: Outbound tourists increased 42.9% YoY

In 2Q15, Modetour's total outbound traffic reached 439,151, up 42.9% YoY, outpacing the market's 22.7% growth. Package users increased 36.4% YoY on strong demand to travel abroad, despite the outbreak of the Middle East Respiratory Syndrome (MERS). Ticket sales also grew 56.9%, continuing to deliver solid growth on rising brand awareness. The company's market share gained 1.5%p to 10.7%.

Cons: Sluggish earnings at consolidated subsidiaries

Consolidated OP stood at W5bn, below separate OP of W6.3bn. Jautour appears to have reported a ~W1bn operating loss as normalizing management has yet to gain transaction and MERS-related fallout was unavoidable. In addition, the STAZ hotels, run by Modestay, another subsidiary, saw occupancy rates fall below 40% in June due to fewer guests stemming from the MERS scare. As such, Modestay likely posted an operating loss as business was slower than usual.

Conclusion: Earnings to improve further; Maintain BUY

We maintain BUY and a TP of W50,000 (25x 12MF PE). Performance indicators, including outbound traffic, earnings and market share, should continue to improve, driven by the structural growth of outbound travelers. We estimate 2015F sales and OP will grow 24% YoY and 75% YoY, respectively. Efforts to normalize Jautour should gain traction in 2H15. Seasonally strong demand should also help Jautour's earnings. In 2015F, Jautour should post sales of W8bn with an operating loss of W1.3bn (W700mn consolidated basis). Once the business normalizes, Jautour should generate synergies with Modetour as a diversified sales channel.

(W bn, %, %p)

	2Q15P				Change		2015F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	47	50	6.5	45	(1.5)	36.1	203	199
OP	5	5	(1.6)	5	(19.6)	135.9	29	27
OP margin	11.0	10.1	(0.8)	10.7	(2.3)	4.3	14.3	13.4
EBT	6	5	(4.2)	6	(25.8)	104.4	32	29
NP	4	4	(4.5)	4	(36.9)	56.6	21	22

Minha Choi
 822-3276-6260
 mhchoi@truefriend.com

Table 1. Quarterly earnings (consolidated)

('000 people, W bn, %, %p)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15P	QoQ	YoY	KIS	% differ.	Consensus	% differ.	3Q15F	4Q15F
Domestic outbound traffic	3,610	3,337	3,972	3,807	4,355	4,095	(6.0%)	22.7%	3,617	13.2%			4,237	3,939
Modetour's outbound traffic	361	307	367	395	487	439	(9.8%)	42.9%	409	7.4%			497	444
Modetour's package users	263	211	249	257	335	288	(14.2%)	36.4%	269	6.9%			310	299
Market share (%)	10.0	9.2	9.2	10.4	11.2	10.7	(0.5%p)	1.5%p	11.3	(0.6%p)			11.7	11.3
Sales	40.4	36.4	47.0	40.9	50.4	49.6	(1.5%)	36.1%	46.6	6.5%	45.0	10.2%	58.3	45.1
Parent	39.5	35.6	42.8	37.3	46.9	43.8	(6.6%)	23.0%	42.1	3.9%			50.6	39.9
Subsidiaries	2.4	2.5	4.5	2.6	4.3	5.0	15.4%	101.6%	4.5	12.1%			7.9	5.8
Operating expenses	37.4	34.3	40.0	36.4	44.1	42.9	(2.8%)	25.0%	41.5	3.4%	40.2	6.7%	47.9	39.5
OP	3.0	2.1	7.0	4.5	6.3	5.0	(19.6%)	135.9%	5.1	(1.6%)	4.8	4.7%	10.4	5.6
OPM	7.4	5.8	14.9	11.0	12.4	10.1	(2.3%p)	4.3%p	11.0	(0.8%p)	10.7	(0.5%p)	17.9	12.4
EBT	6.5	2.7	6.1	4.0	7.4	5.5	(25.8%)	104.4%	5.7	(4.2%)	5.5	(0.5%)	11.0	5.9
Controlling interest NP	5.2	2.3	4.3	3.5	5.6	3.5	(36.9%)	56.6%	3.7	(4.5%)	4.2	(15.7%)	7.1	3.8

Note: Domestic outbound traffic excl. crew members

Source: Company data, Korea Tourism Organization (KTO), FnGuide, Korea Investment & Securities

Table 2. Quarterly earnings (parent)

(W bn, %, %p)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	QoQ	YoY
Sales	39.5	35.6	42.8	37.3	46.8	43.8	(6.6%)	23.0%
Air-ticket	2.1	2.6	2.7	3.4	4.1	4.0	(1.2%)	57.3%
Overseas travel commission	34.5	30.3	36.6	30.3	40.2	36.6	(9.1%)	20.5%
Others	2.9	2.7	3.5	3.6	2.7	3.2	18.8%	18.7%
Operating expenses	34.4	31.7	34.9	33.0	39.7	37.5	(5.6%)	18.2%
OP	5.1	3.8	7.9	4.3	7.1	6.3	(12.2%)	63.1%
OPM	12.8	10.8	18.5	11.5	15.2	14.3	(0.9%p)	3.5%p
EBT	7.5	3.7	8.4	4.1	8.1	6.9	(15.5%)	86.9%
NP	5.7	2.6	6.6	3.0	6.2	5.2	(15.5%)	98.6%

Note: Sales by division and non-operating earnings are KIS estimates as actual figures have not been disclosed yet

Source: Company data, Korea Investment & Securities

Table 3. Annual earnings

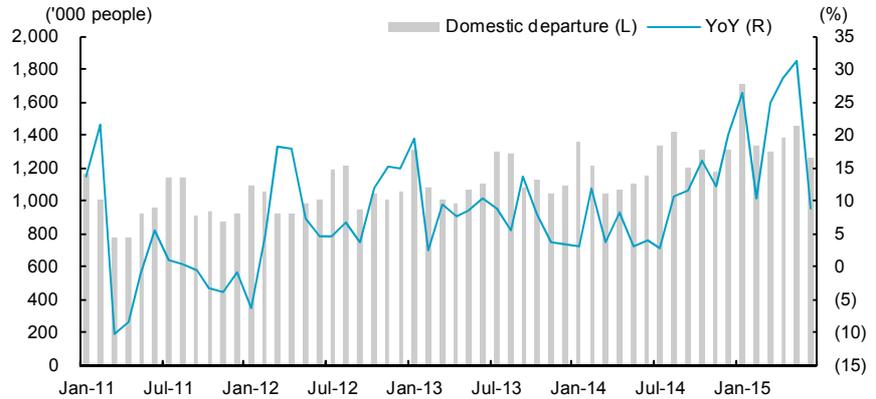
('000 people, W bn, %, %p)

	2012	2013	YoY	2014	YoY	2015F	YoY	2016F	YoY
Domestic outbound traffic	12,474	13,525	8.4%	14,726	8.9%	16,626	12.9%	17,906	7.7%
Modetour's outbound traffic	1,239	1,329	7.3%	1,431	7.6%	1,868	30.5%	2,200	17.8%
Modetour's package users	869	942	8.3%	980	4.1%	1,231	25.6%	1,396	13.3%
Market share (%)	9.9	9.8	(0.1%p)	9.7	(0.1%p)	11.2	1.5%p	12.3	1.1%p
Sales	137.9	147.0	6.6%	164.7	12.1%	203.4	23.5%	226.1	11.2%
Operating expenses	116.6	131.2	12.5%	148.1	12.9%	174.4	17.8%	193.3	10.8%
OP	21.3	15.8	(25.7%)	16.6	5.2%	29.0	74.6%	32.8	13.2%
OPM	15.4	10.7	(4.7%p)	10.1	(0.7%p)	14.3	4.2%p	14.5	0.3%p
EBT	23.0	20.1	(12.6%)	19.3	(3.9%)	31.5	63.3%	35.5	12.7%
NP	17.6	16.1	(8.4%)	15.3	(4.7%)	21.2	38.4%	22.9	8.0%

Note: Domestic outbound traffic excl. crew members

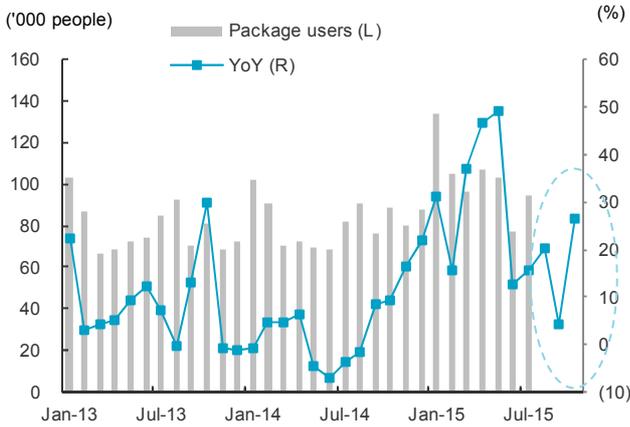
Source: KTO, Company data, Korea Investment & Securities

Figure 1. Monthly domestic departure and YoY growth



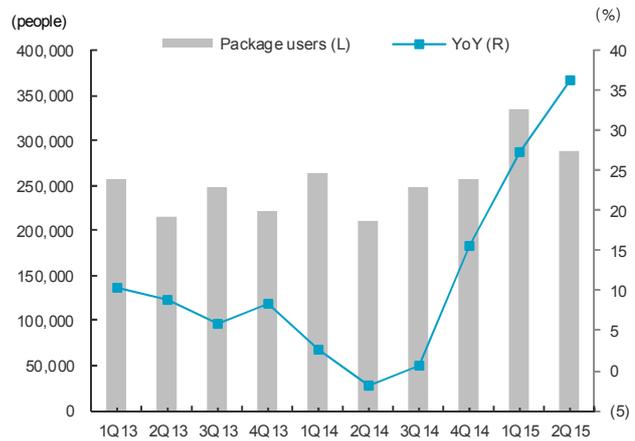
Note: Domestic departure refers to Korean outbound traffic excl. crew members
Source: KTO, Korea Investment & Securities

Figure 2. Monthly package users, YoY growth and reservation rate



Note: Aug-Oct reservation rate based on data released on Aug 4
Source: Company data, Korea Investment & Securities

Figure 3. Quarterly package users and YoY growth



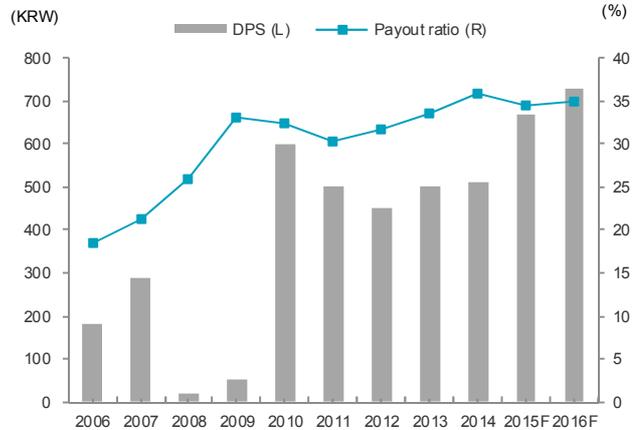
Source: Company data, Korea Investment & Securities

Figure 4. Passenger weighting by destination



Source: Company data, Korea Investment & Securities

Figure 5. DPS and dividend payout ratio



Note: Dividend payout ratio based on separate earnings
Source: Company data, Korea Investment & Securities

Company overview & Glossary

Modetour Network (Modetour), established in 1989, provides a wide range of travel services. It went public on the Kosdaq in July 2015. Modetour mainly depends on indirect sales (wholesale) via agencies. It has eight consolidated subsidiaries, such as Modetour International, Modetour H&D, Cruise International, Mode Tourism Development, Modetour REITs, Modestay, Seoul Hotel & Tourism Vocational Training College and Jautour as of 1H15.

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

Balance sheet

FY-ending Dec. (W bn)	2013A	2014A	2015F	2016F	2017F
Current assets	117	132	161	176	193
Cash & cash equivalent	36	55	68	75	82
Accounts & other receivables	24	23	28	31	34
Inventory	0	0	0	0	0
Non-current assets	35	92	110	121	132
Investment assets	19	19	23	26	28
Tangible assets	10	13	13	13	13
Intangible assets	1	4	5	5	6
Total assets	152	224	271	297	324
Current liabilities	57	84	119	132	142
Accounts & other payables	36	50	61	68	75
ST debt & bond	1	6	6	6	6
Current portion of LT debt	0	0	0	0	0
Non-current liabilities	6	31	31	31	32
Debentures	0	0	0	0	0
LT debt & financial liabilities	2	31	31	31	31
Total liabilities	63	115	150	163	174
Controlling interest	89	99	111	124	141
Capital stock	6	6	6	6	6
Capital surplus	28	28	28	28	28
Other Reserves	(15)	(14)	(14)	(14)	(14)
Retained earnings	70	78	91	106	124
Minority interest	0	10	10	10	9
Shareholders' equity	90	109	121	134	150

Cash flow

FY-ending Dec. (W bn)	2013A	2014A	2015F	2016F	2017F
C/F from operating	15	29	49	31	34
Net profit	15	14	21	22	27
Depreciation	1	2	2	2	2
Amortization	0	0	1	1	1
Net incr. in W/C	(6)	11	25	7	4
Others	5	2	0	(1)	0
C/F from investing	(12)	(46)	(28)	(16)	(17)
CAPEX	(1)	(3)	(2)	(2)	(2)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	(11)	8	(5)	(2)	(2)
Net incr. in intangible assets	(0)	(1)	(2)	(1)	(1)
Others	0	(50)	(19)	(11)	(12)
C/F from financing	(8)	34	(8)	(8)	(9)
Incr. in equity	0	8	0	0	0
Incr. in debts	1	32	(0)	(0)	0
Dividends	(5)	(6)	(6)	(8)	(9)
Others	(4)	0	(2)	0	0
C/F from others	(0)	2	0	0	0
Increase in cash	(5)	19	13	7	7

Note: Based on K-IFRS (consolidated)

Income statement

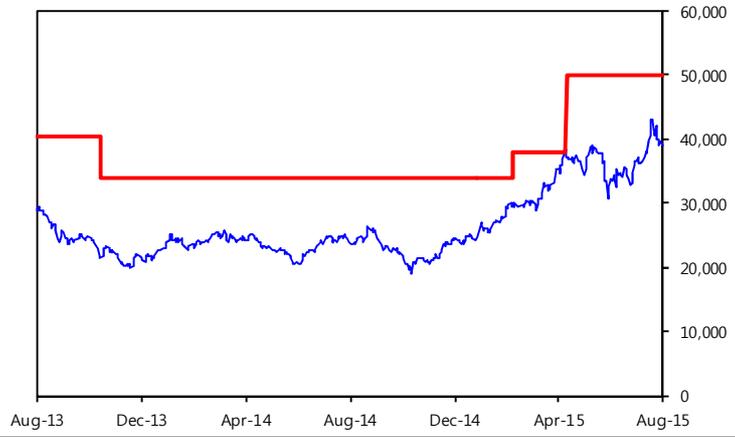
FY-ending Dec. (W bn)	2013A	2014A	2015F	2016F	2017F
Sales	147	165	203	226	250
COGS	2	4	0	0	0
Gross profit	145	161	203	226	250
SG&A expense	130	144	174	193	210
Operating profit	16	17	29	33	40
Financial income	2	1	1	1	1
Interest income	2	1	1	1	1
Financial expense	0	1	1	1	1
Interest expense	0	1	1	1	1
Other non-operating profit	3	2	2	2	3
Gains (Losses) in associates, subsidiaries and JV	0	0	1	1	1
Earnings before tax	20	19	32	36	44
Income taxes	5	5	11	13	16
Net profit	15	14	21	22	27
Net profit of controlling interest	16	15	21	23	28
Other comprehensive profit	(0)	(1)	(1)	(1)	(1)
Total comprehensive profit	15	13	20	21	27
Total comprehensive profit of controlling interest	16	14	20	22	27
EBITDA	17	19	32	36	43

Key financial data

FY-ending Dec.	2013A	2014A	2015F	2016F	2017F
per share data (KRW)					
EPS	1,335	1,278	1,768	1,909	2,346
BPS	8,274	8,962	9,936	10,986	12,357
DPS	500	510	670	730	830
Growth (%)					
Sales growth	6.6	12.1	23.5	11.2	10.6
OP growth	(25.7)	5.2	74.6	13.2	22.1
NP growth	(8.4)	(4.7)	38.4	8.0	22.9
EPS growth	(7.1)	(4.3)	38.3	8.0	22.9
EBITDA growth	(24.3)	9.6	70.1	12.2	20.4
Profitability (%)					
OP margin	10.7	10.1	14.3	14.5	16.0
NP margin	11.0	9.3	10.4	10.1	11.3
EBITDA margin	11.6	11.4	15.7	15.8	17.2
ROA	10.1	7.5	8.5	7.9	8.9
ROE	18.7	16.3	20.3	19.5	21.2
Dividend yield	2.2	2.1	1.7	1.9	2.1
Dividend payout ratio	37.2	39.9	37.9	38.2	35.4
Stability					
Net debt (W bn)	(80)	(60)	(81)	(92)	(105)
Debt/equity ratio (%)	3.2	33.7	30.2	27.2	23.1
Valuation (X)					
PE	17.2	18.9	22.1	20.5	16.7
PB	2.8	2.7	3.9	3.6	3.2
EV/EBITDA	11.4	12.7	12.8	11.0	8.9

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Modetour Network (080160)	10-18-13	BUY	W34,000
	02-12-15	BUY	W38,000
	04-15-15	BUY	W50,000



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BUY	Hold	Underweight (Sell)
76.6%	20.5%	2.9%

Note: % of companies under coverage with this rating

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