true friend Korea Investment & Securities Co., Ltd.

Earnings Review
November 4, 2015

Modetour Network (080160)

Above
In line
Below

12M rating	**BUY (Maintain)**
12M TP	**W50,000** *from W50,000*
Up/downside	**+36%**

Stock Data

KOSPI (Nov 3, pt)	2,048
Stock price (Nov 3, KRW)	36,750
Market cap (USD mn)	409
Shares outstanding (mn)	13
52-Week high/low (KRW)	45,000/20,600
6M avg. daily turnover (USD mn)	5.2
Free float / Foreign ownership (%)	76.2/28.0
Major shareholders (%)	
Jong-Ung Woo and 7 others	17.9
Truston Asset Management	7.2

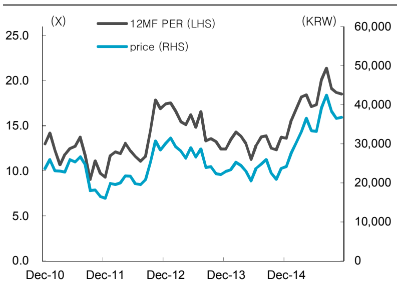
Valuation

	2014A	2015F	2016F
PE (x)	18.9	25.8	18.1
PB (x)	2.7	3.8	3.4
ROE (%)	16.3	16.6	21.2
EV/EBITDA (x)	12.7	15.8	10.9
EPS (KRW)	1,278	1,427	2,029
BPS (KRW)	8,962	9,630	10,793

Performance

	1M	6M	12M
Absolute (%)	(9.1)	0.5	74.2
Relative to KOSPI (%p)	(13.1)	4.3	69.3

12MF PER trend



Source: WISEfn consensus

Poor 3Q15 results, focus on nearing earnings uptick

What's new: Earnings disappoint and miss consensus

Modetour Network (Modetour)'s 3Q15 consolidated sales grew 9.5% YoY to W51.5bn, but OP plunged 52.4% YoY to W3.3bn, missing consensus sales (W52.3bn) and OP (W6.9bn) by 1.9% and 51.6%, respectively. Modetour's total outbound traffic maintained growth at 32.4% YoY. But due to a low ASP stemming from regional sales mix changes and discount sales, top-line growth was limited. 3Q15 tourism package ASP was W869,000, down 14.8% YoY. OPM shrank 3.7%p YoY to 6.5%, due to: 1) greater operating expenses, including labor costs and ad costs related to the recent travel expo (Modetour Travel Mart from October 30 to November 1), and 2) weaker operating leverage effect. Separate sales reached W45.5bn (+6.2% YoY) and OP W5.5bn (+30.1% YoY).

Pros: Rising market share on growing outbound travelers

Modetour's market share continued to rise for a fourth straight quarter, and reached 10.4% (+1.2%p QoQ) in 3Q15. Despite unfavorable market conditions, outbound travelers using the company continued to grow. Its total outbound traffic expanded 32.4% YoY with package tourists up 16.9% YoY and ticket buyers 65.3% YoY. Following changes to the Internet booking engine, ticket sales have been rising more rapidly, helping lift market share.

Cons: Steeper losses at consolidated subsidiaries

Consolidated OP recorded only W3.3bn, lower than separate OP. This was because major consolidated subsidiaries marked poor results due to the fallout from the Middle East Respiratory Syndrome (MERS) outbreak. As foreign tourists dropped sharply in 3Q15, subsidiaries related to inbound visitors, such as Modestay (business hotel) and Modetour International (travel agency specializing in inbound tours) registered steeper losses. In addition, Jautour (reflected in consolidated earnings from 2Q15) appears to have posted a loss of W1.3bn (losses flat QoQ) as the recovery has been slow due to external conditions.

Conclusion: Growth momentum to pick up again; Maintain BUY

We maintain BUY and leave our TP unchanged at W50,000 (25x PE). Short-term earnings were sluggish due to unfavorable external conditions, but this was already priced into shares. We believe it is time to focus more on the probable earnings growth from 4Q15. We expect robust earnings given an increase in outbound package travelers (+21.4% YoY) in October and future reservation rates

(W bn, %, %p)

(Parent)	3Q15P				Change		2015F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	50	51	3.7	52	3.7	9.5	201	203
OP	5	3	(35.3)	7	(35.3)	(52.4)	21	25
OP margin	10.4	6.5	(3.9)	13.2	(3.9)	(8.4)	10.5	12.1
EBT	5	4	(24.3)	7	(24.3)	(31.7)	24	27
NP	4	3	(9.1)	5	(9.1)	(25.7)	17	20

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(31.8% in November, 37.2% in December and 25.8% in January). Japan-bound travel demand has quickly increased since 4Q14, and early reservations have been solid. The pace of ASP decline should be more moderate from a quarter ago.

Table 1. 3Q15 earnings review

(W bn, %, %p)

	3Q14	2Q15	3Q15	QoQ	YoY	KIS	% differ.	Consensus	% differ.
Sales	47.0	49.6	51.5	3.7%	9.5%	49.3	4.4%	52.3	(1.6%)
OP	7.0	5.2	3.3	(35.3%)	(52.4%)	5.0	(33.5%)	6.9	(51.6%)
OPM	14.9	10.4	6.5	(3.9%p)	(8.4%p)	10.2	(3.7%p)	13.2	(6.7%p)
EBT	6.1	5.5	4.2	(24.3%)	(31.7%)	5.5	(24.9%)	7.4	(43.5%)
NP	4.3	3.5	3.2	(9.1%)	(25.6%)	4.3	(24.3%)	5.1	(36.9%)

Source: Company data, Fnguide, Korea Investment & Securities

Table 2. Quarterly earnings (consolidated)

(W bn, %, %p)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15P	QoQ	YoY	4Q15F
Domestic departure (excl. crew)	3,610	3,337	3,972	3,807	4,355	4,095	4,667	14.0%	17.5%	4,105
Modetour's outbound traffic	361	307	367	395	487	439	486	10.7%	32.4%	486
Modetour's package users	263	211	249	257	335	288	291	1.3%	16.9%	308
Market share (%)	10.0	9.2	9.2	10.4	11.2	10.7	10.4	1.2%p	1.2%p	11.8
Sales	40.4	36.4	47.0	40.9	50.4	49.6	51.5	3.7%	9.5%	49.9
Parent	39.5	35.6	42.8	37.3	46.8	43.8	45.5	3.8%	6.2%	42.9
Consolidated subsidiaries	2.4	2.5	4.5	2.6	4.3	6.1	5.8	(4.5%)	30.0%	7.1
Operating expenses	37.4	34.3	40.0	36.4	44.1	44.4	48.1	8.3%	20.3%	43.6
OP	3.0	2.1	7.0	4.5	6.3	5.2	3.3	(35.3%)	(52.4%)	6.3
OPM	7.4	5.8	14.9	11.0	12.4	10.4	6.5	(8.4%p)	(8.4%p)	12.7
EBT	6.5	2.7	6.1	4.0	7.4	5.5	4.2	(33.6%)	(31.7%)	6.7
Controlling interest NP	5.2	2.3	4.3	3.5	5.6	3.5	3.2	(9.1%)	(25.6%)	4.7

Source: Company data, Korea Investment & Securities

Table 3. Quarterly earnings (separate)

(W bn, %, %p)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	QoQ	YoY
Sales	39.5	35.6	42.8	37.3	46.8	43.8	45.5	3.8%	6.2%
Air ticket	2.1	2.6	2.7	3.4	4.1	4.0	3.9	(1.0%)	45.1%
Overseas travel commission	34.5	30.3	36.6	30.3	40.2	35.9	36.7	2.2%	0.4%
Others	2.9	2.7	3.5	3.6	2.7	3.9	4.8	23.5%	35.8%
Operating expenses	34.4	31.7	34.9	33.0	39.7	37.5	39.9	6.4%	14.4%
OP	5.1	3.8	7.9	4.3	7.1	6.3	5.5	(11.7%)	(30.1%)
OPM	12.8	10.8	18.5	11.5	15.2	14.3	12.2	(2.1%p)	(6.3%p)
EBT	7.5	3.7	8.4	3.0	8.1	5.5	6.0	7.9%	(29.2%)
NP	5.7	2.6	6.6	2.1	6.2	4.2	4.7	10.3%	(29.7%)

Source: Company data, Korea Investment & Securities

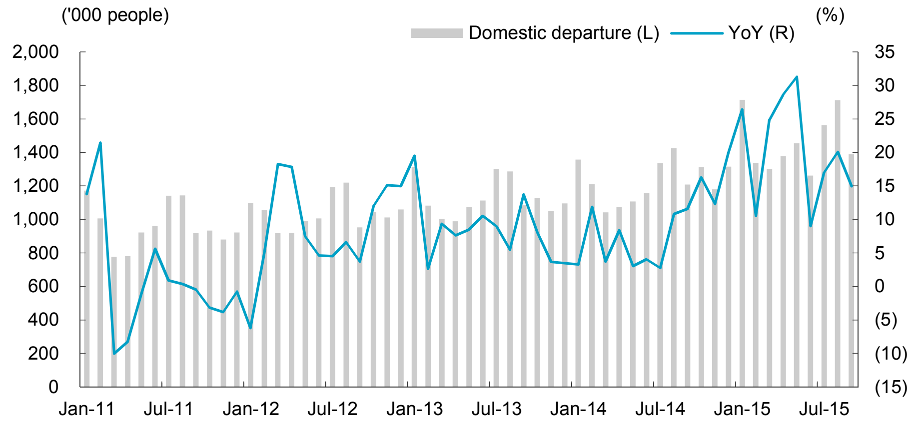
Table 4. Annual earnings

(W bn, %, %p)

	2012	2013	YoY	2014	YoY	2015F	YoY	2016F	YoY
Domestic departure (excl. crew)	12,474	13,525	8.4%	14,726	8.9%	17,222	16.9%	18,739	8.8%
Modetour's outbound traffic	1,239	1,329	7.3%	1,431	7.6%	1,898	32.7%	2,273	19.7%
Modetour's package users	869	942	8.3%	980	4.1%	1,221	24.6%	1,346	10.2%
Market share (%)	9.9	9.8	(0.1%p)	9.7	(0.1%p)	11.0	1.3%p	12.1	1.1%p
Sales	137.9	147.0	6.6%	164.7	12.1%	201.4	22.3%	223.9	11.2%
Operating expenses	116.6	131.2	12.5%	148.1	12.9%	180.3	21.8%	192.9	7.0%
OP	21.3	15.8	(25.7%)	16.6	5.2%	21.1	26.9%	30.9	46.8%
OPM	15.4	10.7	(4.7%p)	10.1	(0.7%p)	10.5	0.4%p	13.8	3.4%p
EBT	23.0	20.1	(12.6%)	19.3	(3.9%)	24.5	26.9%	34.3	39.9%
Controlling interest NP	17.6	16.1	(8.4%)	15.3	(4.7%)	17.1	11.6%	24.3	42.0%

Source: Company data, Korea Investment & Securities

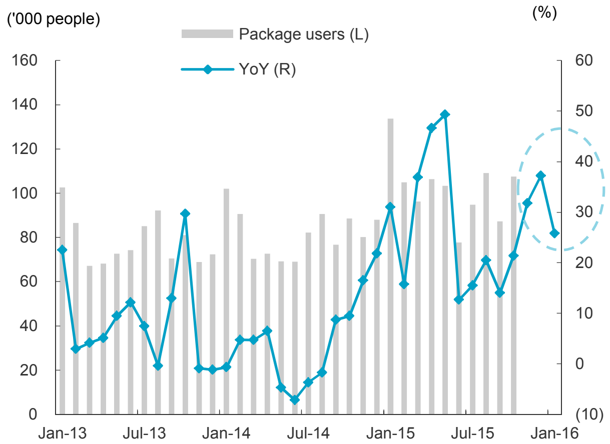
Figure 1. Monthly domestic departure and YoY chg.



Note: Domestic departure refers to Korean outbound traffic excl. crew members

Source: KTO, Korea Investment & Securities

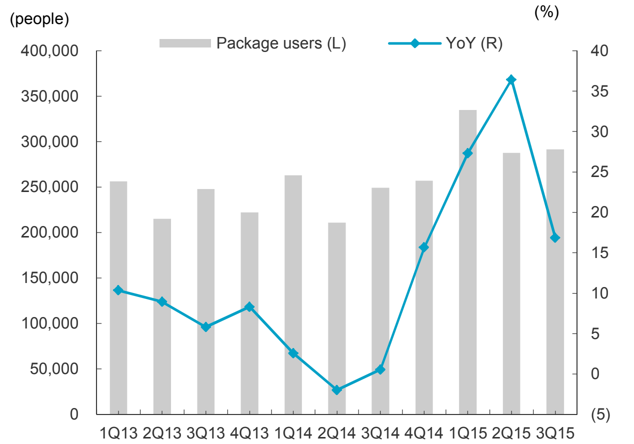
Figure 2. Monthly package users, YoY chg. and reservation rate



Note: November-January reservation rate based on data released on Nov 2

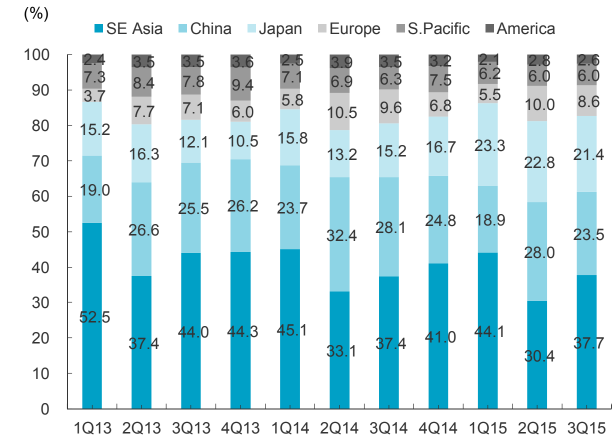
Source: Company data, Korea Investment & Securities

Figure 3. Quarterly package users and YoY chg.



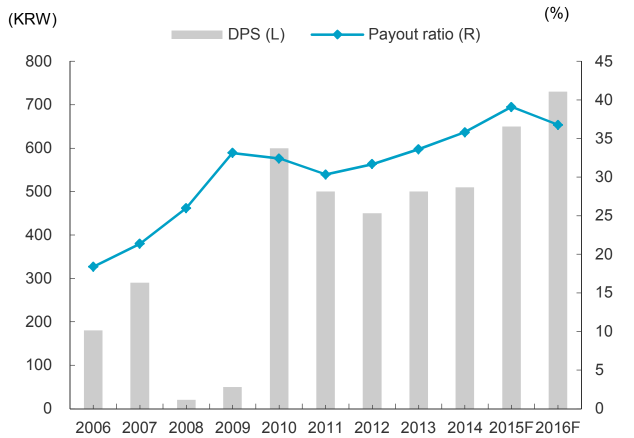
Source: Company data, Korea Investment & Securities

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

Table 5. Earnings estimate revision

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

	2015F			2016F		
	Previous	Revised	Diff.	Previous	Revised	Diff.
Domestic departure	17,222	17,222	0.0%	18,912	18,912	0.0%
Modetour's outbound traffic	1,910	1,898	(0.6%)	2,316	2,273	(1.9%)
Market share	11.1	11.0	(0.1%p)	12.2	12.0	(0.2%p)
Sales	198.1	201.4	1.7%	223.0	223.9	0.4%
OP	23.6	21.1	(10.7%)	32.4	30.9	(4.6%)
OPM	11.9	10.5	(1.5%p)	14.5	13.8	(0.7%p)
EBT	26.7	24.5	(8.3%)	35.7	34.3	(4.2%)
NP	19.6	17.1	(12.5%)	26.5	24.3	(8.4%)

Source: 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	159	175	188
Cash & cash equivalent	36	55	67	74	81
Accounts & other receivables	24	23	28	31	34
Inventory	0	0	0	0	0
Non-current assets	35	92	109	120	129
Investment assets	19	19	23	25	28
Tangible assets	10	13	13	13	13
Intangible assets	1	4	5	5	6
Total assets	152	224	269	294	317
Current liabilities	57	84	120	130	136
Accounts & other payables	36	50	61	67	74
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	151	162	168
Controlling interest	89	99	107	122	139
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	88	103	121
Minority interest	0	10	10	10	11
Shareholders' equity	90	109	117	132	149

Income statement

FY-ending Dec. (W bn)	2013A	2014A	2015F	2016F	2017F
Sales	147	165	201	224	244
COGS	2	4	0	0	0
Gross profit	145	161	201	224	244
SG&A expense	130	144	180	193	208
Operating profit	16	17	21	31	36
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	3	2	2
Gains (Losses) in associates, subsidiaries and JV	0	0	0	1	1
Earnings before tax	20	19	24	34	39
Income taxes	5	5	8	10	11
Net profit	15	14	17	25	28
Net profit of controlling interest	16	15	17	24	28
Other comprehensive profit	(0)	(1)	(1)	(1)	(1)
Total comprehensive profit	15	13	16	24	27
Total comprehensive profit of controlling interest	16	14	16	23	27
EBITDA	17	19	24	34	39

Cash flow

FY-ending Dec. (W bn)	2013A	2014A	2015F	2016F	2017F
C/F from operating	15	29	46	32	32
Net profit	15	14	17	25	28
Depreciation	1	2	2	2	2
Amortization	0	0	1	1	1
Net incr. in W/C	(6)	11	27	4	1
Others	5	2	(1)	0	0
C/F from investing	(12)	(46)	(27)	(16)	(15)
CAPEX	(1)	(3)	(2)	(2)	(2)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	(11)	8	(5)	(3)	(2)
Net incr. in intangible assets	(0)	(1)	(2)	(1)	(1)
Others	0	(50)	(18)	(10)	(10)
C/F from financing	(8)	34	(8)	(9)	(10)
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)	(1)	(1)
C/F from others	(0)	2	0	0	0
Increase in cash	(5)	19	12	7	6

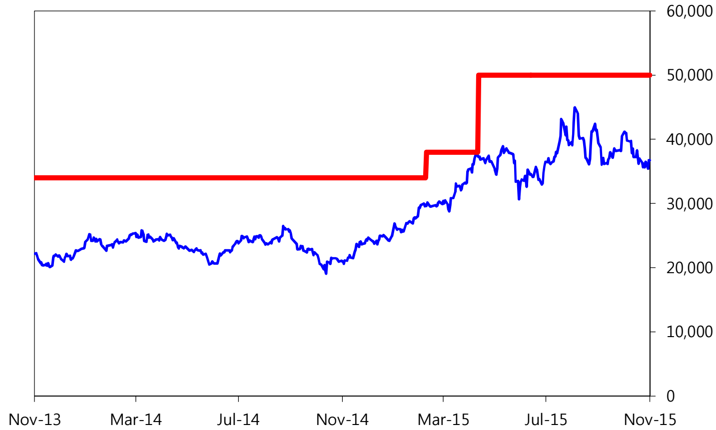
Note: Based on K-IFRS (consolidated)

Key financial data

FY-ending Dec.	2013A	2014A	2015F	2016F	2017F
per share data (KRW)					
EPS	1,335	1,278	1,427	2,029	2,319
BPS	8,274	8,962	9,630	10,793	12,120
DPS	500	510	650	730	850
Growth (%)					
Sales growth	6.6	12.1	22.3	11.2	9.2
OP growth	(25.7)	5.2	26.9	46.8	16.4
NP growth	(8.4)	(4.7)	11.6	42.0	14.3
EPS growth	(7.1)	(4.3)	11.6	42.2	14.3
EBITDA growth	(24.3)	9.6	27.8	41.4	15.1
Profitability (%)					
OP margin	10.7	10.1	10.5	13.8	14.7
NP margin	11.0	9.3	8.5	10.9	11.4
EBITDA margin	11.6	11.4	11.9	15.1	16.0
ROA	10.1	7.5	6.9	8.7	9.2
ROE	18.7	16.3	16.6	21.2	21.4
Dividend yield	2.2	2.1	1.8	2.0	2.3
Dividend payout ratio	37.2	39.9	45.5	36.0	36.6
Stability					
Net debt (W bn)	(80)	(60)	(80)	(90)	(101)
Debt/equity ratio (%)	3.2	33.7	31.2	27.5	23.3
Valuation (X)					
PE	17.2	18.9	25.8	18.1	15.8
PB	2.8	2.7	3.8	3.4	3.0
EV/EBITDA	11.4	12.7	15.8	10.9	9.2

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Modetour Network (080160)	11-17-13	BUY	W34,000
	02-12-15	BUY	W38,000
	04-15-15	BUY	W50,000



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- BUY: Expected to outperform the market index by 15%p or more
- Hold: Expected to underperform or outperform the market index by less than 15%p
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■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Sep 30, 2015)**

BUY	Hold	Underweight (Sell)
76.7%	19.9%	3.4%

Note: % of companies under coverage with this rating

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- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

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Prepared by: Minha Choi

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