Company Update

SAMSUNG SECURITIES

2015. 11. 4

Mode Tour Network (080160)

Strong 4Q expected to follow weak 3Q

* Mode Tour Network yesterday posted a 3Q operating profit of KRW3.3b that missed the consensus.
* We maintain a positive outlook on the stock's 4Q, however, given strength in advance bookings and an expected increase in its market share.
* We reiterate BUY on Mode Tour with a target price of KRW52,000.

WHAT'S THE STORY?

Operating profit misses…: Mode Tour Network yesterday posted 3Q consolidated sales and operating profit of KRW51.5b (up 9.5% y-y) and KRW3.3b (down 52.4% y-y), respectively, the latter missing the consensus by 52.8%. Parent-based sales grew 6% y-y (in line with our forecast), as package tour traffic rose 17% y-y and ASP fell 15% y-y, but operating profit was hurt by a y-y increase in labor costs (due to a special bonus and hiring) and a KRW500m rise y-y in advertising costs (due to a travel fair the firm sponsored). Of KRW2.2b in losses from consolidated subsidiaries, Jau Tour likely accounted for more than half, while hotel business operator Mode Stay likely lost KRW300m loss due to MERS.

…but 4Q expectations intact: Despite the poor results, we maintain a positive outlook on Mode Tour's 4Q15 and 1Q16 earnings. Advance bookings for package tours for October, November, and December grew a respective 21%, 32%, and 25% y-y (vs 17%, 25%, and 25% at Hana Tour], and we expect 4Q15 ASP to fall just 8% y-y. In addition, the travel fair (held Oct 30-Nov 1) should bolster 1Q16 profits as the company signed up more than twice as many customers for 1Q16 travel than it did at last year's fair for 1Q15 (we expect another KRW500m in related advertising costs to be booked in 4Q15). Finally, we expect the company's market share to increase 0.8%pts q-q to 11.2% in 4Q15, air ticket sales for FIT traffic jumped 47.8% y-y in October despite a high base.

Reiterating BUY and target price: Mode Tour is trading in the upper half of its historical trading band at 23x 2016 P/E. Looking ahead, we expect it to shed the discount it has received relative to leading player Hana Tour, as: 1) profit growth in its core operations should remain solid during the off-peak quarter of 4Q15; and 2) we expect large duty free shop operators to respond to intensifying competition by proposing partnerships with the firm in 2016.

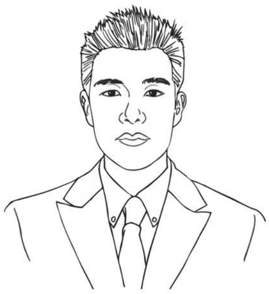
SUMMARY OF 3Q RESULTS

(KRWb)	3Q15	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	51.5	9.6	3.8	8.7	(4.0)
Operating profit	3.3	(52.9)	(36.0)	(25.9)	(52.8)
Pre-tax profit	4.2	(31.0)	(32.9)	(5.5)	(41.0)
Net profit	3.0	(7.1)	(25.7)	(10.9)	(45.3)
Margins (%)					
Operating profit	6.4				
Pre-tax profit	8.2				
Net profit	5.8				

Source: Company data, Samsung Securities estimates

VALUATION SUMMARY

	2014	2015E	2016E
Multiples (x)			
P/E	30.2	27.8	22.9
P/B	4.5	4.0	3.6
EV/EBITDA	22.0	18.5	14.6
Div yield (%)	1.4	1.5	1.8
EPS growth (% y-y)	(4.7)	8.7	21.1
ROE (%)	16.3	15.8	17.5
Per-share data (KRW)			
EPS	1,218	1,324	1,603
BVPS	8,218	9,080	10,153
DPS	510	550	650



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AT A GLANCE

SELL | HOLD | **BUY**

Target price	KRW52,000	(41.5%)
Current price	**KRW36,750**	
Market cap	KRW463.05b/USD408.66m	
Shares (float)	12,600,000 (76.2%)	
52-week high/low	KRW45,000/KRW20,600	
Avg daily trading value (60-day)	KRW4.9b/ USD4.3m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Mode Tour Network (%)	-9.1	0.5	74.2
Vs Kosdaq (%pts)	-8.6	1.6	41.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	52,000	52,000	0.0%
2015E EPS	1,324	1,360	-2.6%
2016E EPS	1,603	1,708	-6.1%

SAMSUNG vs THE STREET

No of estimates	11
Target price	49,864
Recommendation	4.0

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

Results and forecasts (parent basis)

(KRWb)	1Q15	2Q15	3Q15	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E	2014	2015E	2016E
Net sales	47	44	45	43	50	46	53	46	155	179	195
Package tours	40	36	37	35	42	36	42	36	132	147	156
Air tickets	4	4	4	4	5	5	5	6	11	16	21
Other income	3	4	5	4	3	4	6	5	13	15	18
Operating costs	40	38	40	38	43	41	44	40	134	155	167
Wages	13	12	13	11	14	13	14	12	43	49	52
Commissions fees to agencies	15	12	13	13	15	13	15	13	49	54	57
Ordinary commission fees	6	5	6	5	7	6	7	6	18	23	26
Advertising costs	2	3	3	3	2	4	3	3	8	11	12
Other	4	4	5	5	5	5	5	5	16	18	20
Operating profit	7	6	6	5	7	5	9	6	21	24	27
Chg (% y-y)											
Net sales	18.6	23.1	6.2	14.8	7.5	4.5	15.9	7.4	8.6	15.3	8.9
Package tours	16.4	18.6	0.4	13.9	5.1	0.8	14.8	4.0	6.5	11.9	6.2
Air tickets	90.8	55.0	45.1	28.0	27.0	27.0	27.0	27.0	12.9	51.1	27.0
Other income	(8.6)	45.9	35.9	10.0	15.0	15.0	15.0	15.0	31.3	20.4	15.0
Operating costs	15.3	18.3	14.4	14.3	8.6	8.4	9.9	5.3	8.8	15.5	8.1
Wages	6.3	14.4	18.2	12.0	8.0	8.0	8.0	7.0	6.3	12.5	7.8
Commissions fees to agencies	11.7	4.6	7.8	17.0	5.9	6.0	10.8	0.5	(4.2)	10.2	5.8
Ordinary commission fees	63.7	53.6	7.8	10.0	15.0	13.0	13.0	10.0	63.1	29.5	12.8
Advertising costs	(1.6)	98.0	26.7	15.0	12.0	10.0	9.0	10.0	42.7	30.8	10.1
Other	10.6	12.0	26.1	18.0	9.0	9.0	9.0	7.0	6.0	16.7	8.5
Operating profit	41.0	63.3	(30.1)	19.4	1.7	(18.8)	59.5	22.2	7.2	14.0	14.0
Volume ('000 people)											
Outbound travelers (excl crew)	4,355	4,095	4,667	4,454	4,747	4,382	5,180	4,676	14,726	17,570	18,985
Mode market share (%)	11.2	10.7	10.4	11.2	11.9	11.4	11.2	12.0	9.7	10.9	11.6
Mode total	487	439	486	497	563	501	580	560	1,431	1,910	2,204
Package	335	288	291	310	369	307	331	320	980	1,224	1,326
Other	152	152	195	187	195	194	249	240	451	685	877
Chg (% y-y)											
Outbound travelers (excl crew)	20.6	22.7	17.5	17.0	9.0	7.0	11.0	5.0	8.9	19.3	8.1
Mode market share (%)	1.2	1.5	1.2	0.8	0.7	0.7	0.8	0.8	(0.1)	1.2	0.7
Mode total	35.0	42.9	32.4	25.7	15.7	14.0	19.3	12.5	7.6	33.5	15.4
Package	27.3	36.4	16.9	20.8	10.1	6.6	13.5	3.2	4.1	24.9	8.3
Other	55.7	56.9	65.3	35.0	28.0	28.0	28.0	28.0	16.2	52.1	28.0
Gross sales (KRWb)	384	338	369	365	434	375	431	399	1,275	1,456	1,639
Package	293	250	253	261	319	264	284	267	981	1,057	1,134
Air tickets	91	87	116	104	116	111	146	132	293	398	505
ASPs (KRWm)											
Package	0.87	0.87	0.87	0.84	0.86	0.86	0.86	0.83	1.00	0.86	0.86
Air tickets	0.60	0.58	0.59	0.56	0.59	0.57	0.59	0.55	0.65	0.58	0.58
(% y-y)											
Gross sales	15.1	16.7	10.4	14.9	13.2	11.0	16.9	9.2	4.4	14.2	12.6
Package	9.3	11.6	(0.5)	11.1	9.0	5.6	12.4	2.2	2.3	7.7	7.3
Air tickets	38.7	34.4	45.4	25.6	26.7	26.7	26.7	26.7	12.2	35.8	26.7
ASPs											
Package	(14.1)	(18.2)	(14.8)	(8.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.7)	(13.7)	(1.0)
Air tickets	(10.9)	(14.4)	(12.0)	(7.0)	(1.0)	(1.0)	(1.0)	(1.0)	(3.4)	(10.7)	(1.0)
Package sales conversion ratio (%)	13.7	14.4	14.5	13.2	13.2	13.7	14.8	13.5	13.4	13.9	13.8
Commission costs ratio to sales (%)	5.0	4.9	5.3	5.1	4.8	5.0	5.2	5.0	5.0	5.1	5.0

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31(KRWb)	2013	2014	2015E	2016E	2017E
Sales	**147**	**165**	**198**	**216**	**232**
Cost of goods sold	2	4	7	8	9
Gross profit	**145**	**161**	**191**	**208**	**223**
Gross margin (%)	99.0	97.7	96.3	96.3	96.2
SG&A expenses	130	144	171	184	194
Operating profit	**16**	**17**	**19**	**24**	**29**
Operating margin (%)	10.7	10.1	9.7	11.2	12.7
Non-operating gains (losses)	**4**	**3**	**3**	**2**	**2**
Financial profit	2	1	1	2	2
Financial costs	0	1	0	0	0
Equity-method gains (losses)	0	0	0	0	0
Other	3	2	2	0	0
Pre-tax profit	**20**	**19**	**23**	**26**	**32**
Taxes	5	5	6	6	8
Effective tax rate (%)	24.0	27.3	28.4	24.2	24.2
Profit from continuing operations	15	14	16	20	24
Profit from discontinued operations	0	0	0	0	0
Net profit	**15**	**14**	**16**	**20**	**24**
Net margin (%)	10.4	8.5	8.1	9.2	10.4
Net profit (controlling interests)	16	15	16	20	24
Net profit (non-controlling interests)	(1)	(1)	(0)	(0)	(0)
EBITDA	17	19	22	27	33
EBITDA margin (%)	11.6	11.4	10.9	12.5	14.1
EPS (parent-based) (KRW)	1,278	1,218	1,306	1,603	1,943
EPS (consolidated) (KRW)	1,212	1,114	1,279	1,574	1,915
Adjusted EPS (KRW)*	1,278	1,218	1,324	1,603	1,943

Balance sheet

Year-end Dec 31(KRWb)	2013	2014	2015E	2016E	2017E
Current assets	**117**	**132**	**137**	**144**	**152**
Cash & equivalents	36	55	54	56	57
Accounts receivable	22	19	26	27	30
Inventories	0	0	0	0	0
Other current assets	59	58	57	61	65
Fixed assets	**35**	**92**	**92**	**96**	**102**
Investment assets	19	19	72	75	79
Tangible assets	10	13	16	16	18
Intangible assets	1	4	4	4	5
Other long-term assets	5	55	(0)	(0)	0
Total assets	**152**	**224**	**229**	**240**	**253**
Current liabilities	**57**	**84**	**88**	**88**	**89**
Accounts payable	0	0	2	2	2
Short-term debt	1	6	5	5	4
Other current liabilities	56	78	81	81	83
Long-term liabilities	**6**	**31**	**32**	**30**	**26**
Bonds & long-term debt	1	29	29	29	29
Other long-term liabilities	5	2	3	1	(3)
Total liabilities	**63**	**115**	**120**	**118**	**115**
Owners of parent equity	**89**	**99**	**109**	**122**	**138**
Capital stock	6	6	6	6	6
Capital surplus	28	28	28	28	28
Retained earnings	70	78	89	102	117
Other	(15)	(14)	(14)	(14)	(14)
Non-controlling interests' equity	**0**	**10**	**0**	**0**	**0**
Total equity	**90**	**109**	**109**	**122**	**138**
Net debt	(80)	(60)	(63)	(70)	(75)

Cash flow statement

Year-end Dec 31(KRWb)	2013	2014	2015E	2016E	2017E
Cash flow from operations	**15**	**29**	**18**	**23**	**24**
Net profit	15	14	16	20	24
Non-cash profit and expenses	11	8	8	8	8
Depreciation	1	2	2	3	3
Amortization	0	0	0	0	0
Other	9	6	6	5	5
Changes in A/L from operating activities	(6)	11	(5)	(1)	(3)
Cash flow from investments	**(12)**	**(46)**	**(12)**	**(11)**	**(13)**
Change in tangible assets	(1)	(3)	(5)	(4)	(5)
Change in financial assets	(8)	5	(7)	(7)	(8)
Other	(4)	(47)	(0)	(0)	(0)
Cash flow from financing	**(8)**	**34**	**(8)**	**(9)**	**(11)**
Change in debt	2	34	(1)	(1)	(0)
Change in equity	(0)	0	0	0	0
Dividends	(5)	(6)	(7)	(8)	(10)
Other	(5)	5	0	0	0
Change in cash	(5)	19	(2)	3	1
Cash at beginning of year	42	36	55	54	56
Cash at end of year	36	55	54	56	57
Gross cash flow	**26**	**22**	**24**	**28**	**33**
Free cash flow	**15**	**26**	**13**	**19**	**19**

Note: * Excluding one off items, ** Fully diluted, excluding one-off items
*** From companies subject to equity-method valuation
Source: Company data, Samsung Securities estimates

Financial ratios

Year-end Dec 31	2013	2014	2015E	2016E	2017E
Growth (%)					
Sales	6.6	12.1	20.2	9.1	7.4
Operating profit	(25.7)	5.2	16.1	24.9	22.3
Net profit	(13.4)	(8.1)	14.8	23.1	21.6
Adjusted EPS**	(8.4)	(4.7)	8.7	21.1	21.2
Per-share data (KRW)					
EPS (parent-based)	1,278	1,218	1,306	1,603	1,943
EPS (consolidated)	1,212	1,114	1,279	1,574	1,915
Adjusted EPS**	1,278	1,218	1,324	1,603	1,943
BVPS	7,458	8,218	9,080	10,153	11,479
DPS (common)	500	510	550	650	800
Valuations (x)					
P/E***	28.8	30.2	27.8	22.9	18.9
P/B***	4.9	4.5	4.0	3.6	3.2
EV/EBITDA	22.4	22.0	18.5	14.6	11.8
Ratios (%)					
ROE	18.7	16.3	15.8	17.5	18.8
ROA	10.1	7.5	7.1	8.4	9.8
ROIC	(218.5)	(86.4)	(30.9)	(26.4)	(31.9)
Payout ratio	37.2	39.9	40.2	38.7	39.3
Dividend yield (common)	1.4	1.4	1.5	1.8	2.2
Net debt to equity	(88.9)	(55.4)	(57.5)	(57.0)	(54.1)
Interest coverage (x)	641.9	23.6	61.9	n/a	n/a

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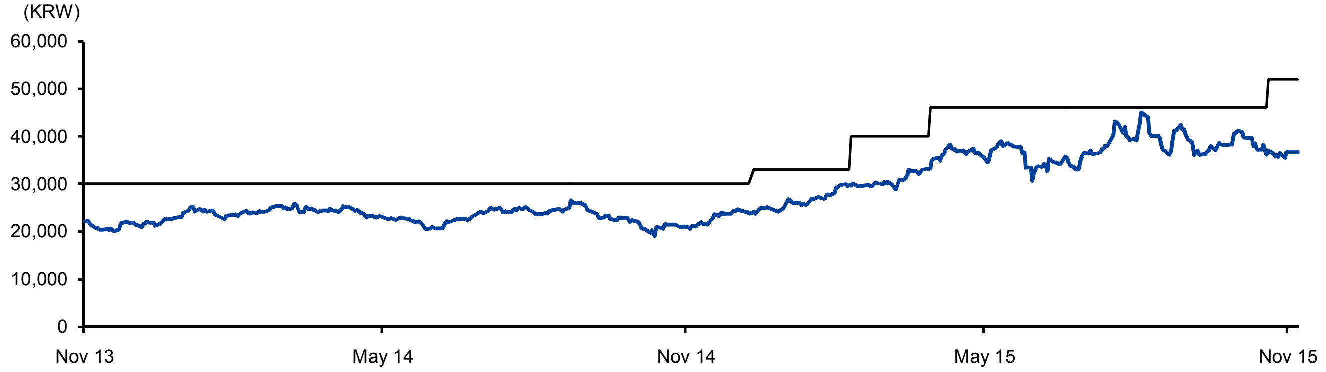
Target price changes in past two years



Rating changes in past two years

Date	2014/12/15	2015/2/12	2/27	4/1	8/4	10/23
Recommendation	BUY	BUY	BUY★★★	BUY★★★	BUY	BUY
Target price (KRW)	33,000	40,000	40,000	46,000	46,000	52,000

Samsung Securities uses the following investment ratings.

Company

BUY★★★	Expected to increase in value by 30% or more within 12 months and is highly attractive within sector
BUY	Expected to increase in value by 10% or more within 12 months
HOLD	Expected to increase/decrease in value by less than 10% within 12 months
SELL	Expected to decrease in value by 10% or more within 12 months
SELL★★★	Expected to decrease in value by 30% or more within 12 months

Industry

OVERWEIGHT	Expected to outperform market by 5% or more within 12 months
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UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

Percentage of ratings in 12 months prior to Sep 30, 2015

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