

February 2, 2018

Modetour Network (080160)

Changed fundamentals

- 4Q17 earnings miss consensus due to SG&A costs (i.e., advertising) despite solid demand
- Combined OP of consolidated subsidiaries turned to black ink on profitable Jautour and entry of Modetour REIT
- Robust profit should continue on structural growth for overseas travel demand and favorable business conditions

Facts: Results miss consensus on greater ad spending

Modetour Network (Modetour) reported 4Q17 consolidated revenue of W77bn, up 30.3% YoY, and OP of W5.5bn, up 45.4% YoY, but the figures missed the consensus. Package buyers and outbound tourists increased 15% and 18.4%, respectively, and fueled by this robust demand, parent sales reached W65.2bn, up 28.7%. However, OP was only W4.5bn, down 17.2%, due to heavier SG&A costs such as advertising. Modetour REIT, previously booked as an affiliate, was reincorporated as a consolidated subsidiary from 4Q17 and appraisal gains were reflected as non-operating profit.

Pros & cons: Combined profit at subsidiaries turns upward

It is encouraging that combined profit at the consolidated subsidiaries finally made a QoQ turnaround. The combined OP was stuck in the red with Modetour International making losses from 2013-2014 and Jautour from 2015-2016. Other upbeat factors include Modetour REIT that can generate ~W2bn in annual OP being added to consolidated accounting and Jautour and Modestay moving into the black YoY in 2017. At the parent, ad spending spiked 97.1% YoY to W7.9bn and pushed up SG&A costs. Accordingly, despite top-line growth driven by rises for ASP (+10.5% YoY) and outbound package tourists (+15% YoY), the parent's overall earnings shrank. After waging an aggressive ad campaign in 4Q17, the company should return to normal ad spending in 2018. As such, the operating leverage from sales growth would reappear.

Action: Profit to steadily slope upward; Maintain BUY

We maintain BUY and leave our TP unchanged at W41,500 (22x 12MF PE). The opening of Incheon International Airport Terminal 2 should prompt greater flight seats while the number of outbound tourists continues to increase on structurally rising demand fueled by more interest in leisure activities. After making losses of W5.3bn in 2015 and W3.3bn in 2016, its consolidated subsidiary Jautour turned around with OP of W70mn in 2017 and should achieve W1.6bn in 2018. Other subsidiaries such as Modestay and Mode Hotel & Realty should bolster the top and bottom lines to fuel consolidated earnings.

Below	In line	Above
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vs. OP consensus

12M rating **BUY (Maintain)**

12M TP **W41,500** from W41,500

Up/downside **+19%**

Stock data

KOSPI (Feb 1, pt)	2,569
Stock price (Feb 1, KRW)	34,950
Market cap (USD mn)	616
Shares outstanding (mn)	19
52-Week high/low (KRW)	36,200/21,411
6M avg. daily turnover (USD mn)	5.7
Free float / Foreign ownership (%)	79.4/42.7
Major shareholders (%)	
Jong-Ung Woo and 14 others	16.1
NPS	7.4

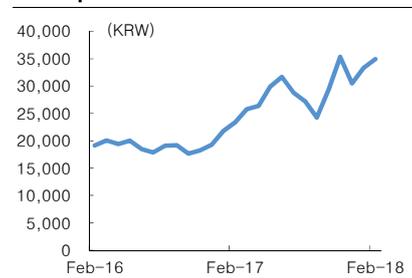
Valuation

	2016A	2017F	2018F
PE (x)	13.5	20.7	19.8
PB (x)	1.8	3.9	3.9
ROE (%)	16.5	23.7	24.5
DY (%)	3.1	1.6	1.7
EV/EBITDA (x)	10.5	12.0	10.4
EPS (KRW)	1,430	1,470	1,767
BPS (KRW)	10,475	7,905	9,020

Performance

	1M	6M	12M
Absolute (%)	14.6	14.6	60.0
Relative to KOSDAQ (%p)	0.8	(24.5)	14.4

Stock price



Source: WISEfn

Minha Choi

mhchoi@truefriend.com

Table 1. Quarterly earnings

(W bn)

	4Q16	1Q17	2Q17	3Q17	4Q17P	QoQ (%)	YoY (%)	Consensus
Sales	59.1	74.0	67.3	72.7	77.0	5.9	30.3	72.4
OP	3.8	11.0	7.3	8.1	5.5	(31.8)	45.4	6.2
OP margin (%)	6.4	14.9	10.8	11.1	7.2			8.6
EBT	4.3	10.9	8.4	8.5	11.6	37.5	172.1	6.4
NP	2.5	8.1	6.0	5.8	6.5	10.9	127.5	5.0

Source: Korea Investment & Securities

Table 2. Quarterly earnings (consolidated)

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

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18F	2Q18F	3Q18F	4Q18F
Domestic departures	5,178	4,695	5,659	5,312	6,114	5,713	6,572	6,438	7,017	6,502	7,548	7,331
Modetour total users	578	519	613	589	709	630	695	698	838	739	827	810
Modetour package users	356	303	340	347	420	333	352	399	484	386	408	467
Market share (%)	11.2	11.1	10.8	11.1	11.6	11.0	10.6	10.8	11.9	11.4	11.0	11.1
Sales	59.5	54.3	64.2	59.1	74.0	67.3	72.7	77.0	84.9	77.4	82.9	83.2
Parent	53.1	46.4	55.7	50.7	64.3	57.3	62.5	65.2	74.3	66.1	71.6	70.4
Subsidiaries	6.7	8.2	8.8	9.0	10.0	10.7	10.7	13.1	11.2	11.8	11.9	13.3
Operating costs	55.2	50.6	55.9	55.2	63.0	60.0	64.5	71.4	71.3	68.0	71.7	74.6
OP	4.3	3.7	8.3	3.8	11.0	7.3	8.1	5.5	13.6	9.4	11.2	8.6
OPM	7.3	6.8	13.0	6.5	14.9	10.9	11.2	7.2	16.0	12.2	13.5	10.3
EBT	4.9	4.7	9.1	4.3	10.9	8.4	8.5	11.6	14.3	10.4	11.6	8.4
NP	3.5	3.5	6.9	2.9	8.1	6.1	5.9	6.5	10.2	7.4	8.3	6.0
(YoY)												
Domestic departures	18.9	14.7	21.3	11.4	18.1	21.7	16.1	21.2	14.8	13.8	14.8	13.9
Modetour total users	18.8	18.2	26.1	12.8	22.6	21.5	13.5	18.4	18.2	17.2	19.0	16.1
Modetour package users	6.3	5.3	16.7	9.8	17.8	10.0	3.5	15.0	15.4	16.1	16.0	16.8
Market share (%)	(0.0)	0.3	0.4	0.1	0.4	(0.0)	(0.2)	(0.3)	0.3	0.3	0.4	0.2
Sales	18.2	9.4	24.8	11.6	24.3	23.9	13.2	30.3	14.8	15.0	14.0	8.0
Parent	13.4	5.9	22.5	9.8	21.1	23.6	12.2	28.7	15.5	15.3	14.5	7.9
Subsidiaries	53.2	15.8	54.4	20.3	50.8	30.5	21.1	46.2	11.3	10.4	11.2	1.1
Operating costs	25.2	13.9	16.1	7.9	14.1	18.5	15.5	29.3	13.2	13.4	11.1	4.4
OP	(30.9)	(28.9)	149.6	123.3	154.8	99.9	(2.3)	45.4	23.7	28.8	37.7	54.2
OPM	(5.2)	(3.6)	6.5	3.2	7.6	4.1	(1.8)	0.7	1.2	1.3	2.3	3.1
EBT	(33.9)	(25.7)	118.8	2,929.1	122.1	81.4	(7.0)	172.2	31.2	23.8	37.8	(28.0)
Controlling-interest NP	(37.5)	(13.9)	113.1	897.0	130.5	71.6	(14.5)	127.4	25.6	22.2	41.8	(8.1)

Note: Excluding crew for domestic departures

Source: Company data, Korea Investment & Securities

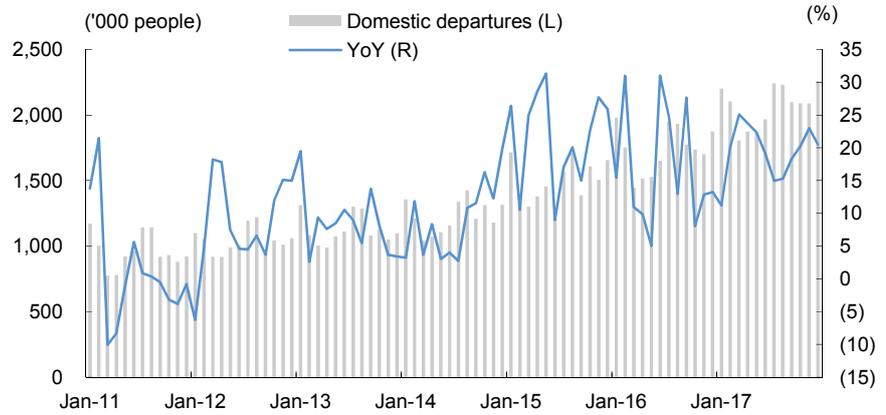
Table 3. Quarterly earnings (non-consolidated)

(W bn , %, %p)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	QoQ	YoY
Sales	53.1	46.4	55.7	50.7	64.3	57.3	62.5	65.2	4.4	28.7
Air tickets	4.4	3.4	3.6	4.0	3.4	3.7	3.7	4.8	29.2	20.6
Travel commissions	43.8	38.3	48.2	41.2	55.1	48.0	51.7	53.5	3.5	29.9
Others	4.9	4.7	4.0	5.5	5.8	5.6	7.1	6.9	(2.0)	26.0
Operating costs	46.8	41.6	46.6	45.3	52.6	49.4	53.6	60.8	13.3	34.2
OP	6.3	4.8	9.0	5.4	11.7	7.9	8.8	4.5	(49.5)	(17.2)
OPM	11.9	10.3	16.2	10.6	18.3	13.7	14.1	6.8	(7.3)	(3.8)
EBT	6.8	5.7	9.6	3.3	11.5	10.1	9.5	2.2	(77.2)	(34.7)
NP	5.2	4.3	7.4	2.5	8.8	7.5	7.2	2.0	(72.6)	(20.3)

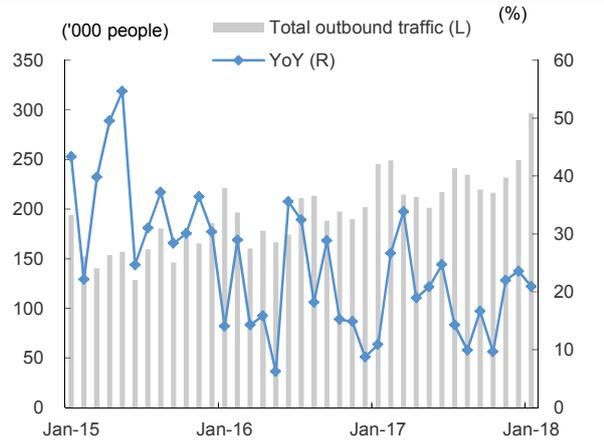
Source: Company data, Korea Investment & Securities

Figure 1. Domestic departures



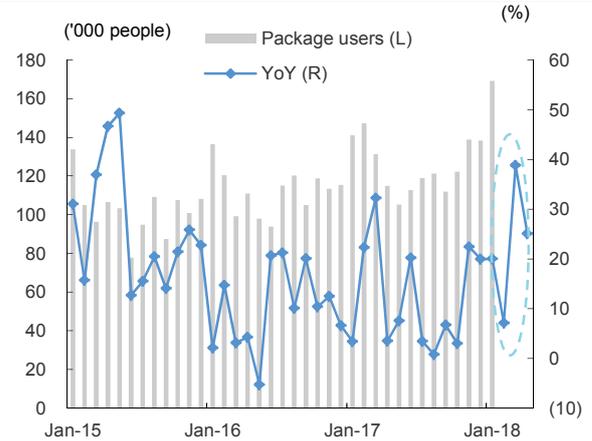
Note: Excluding crew for domestic departures
Source: Company data, Korea Investment & Securities

Figure 2. Modetour total outbound traffic growth



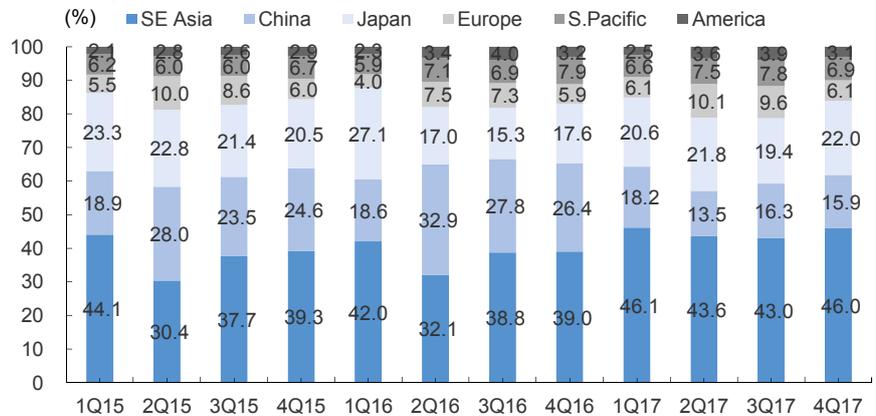
Source: Company data, Korea Investment & Securities

Figure 3. Modetour package buyers and reservation rates



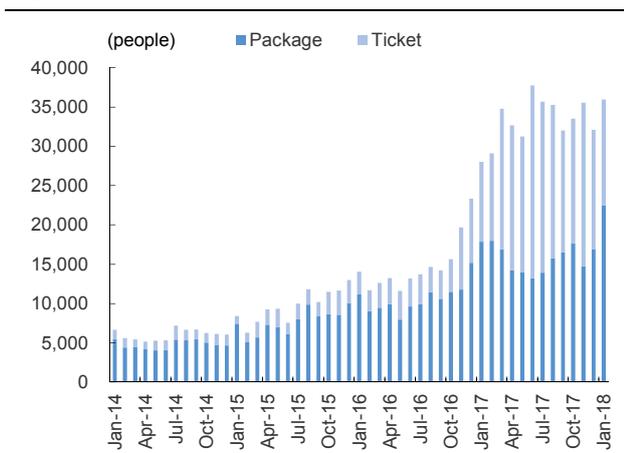
Note: Feb-Apr 2018 reservation rate from data released on Feb 1
Source: Company data, Korea Investment & Securities

Figure 4. Passenger weightings by destination (no. of passengers)



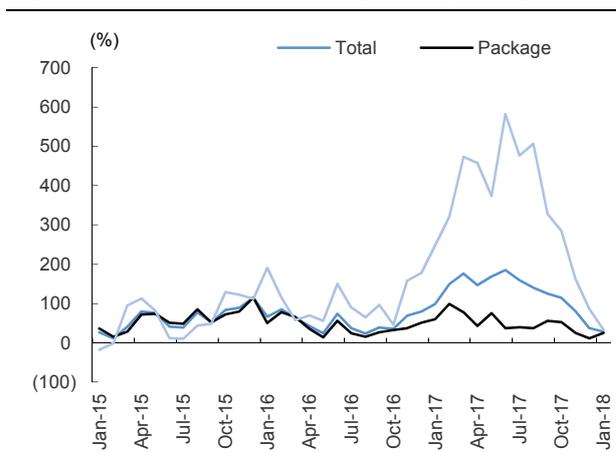
Source: Company data, Korea Investment & Securities

Figure 5. Jautour outbound traffic



Source: Company data, Korea Investment & Securities

Figure 6. Jautour traffic and YoY growth by category



Source: Company data, Korea Investment & Securities

Table 4. Consolidated subsidiary quarterly earnings

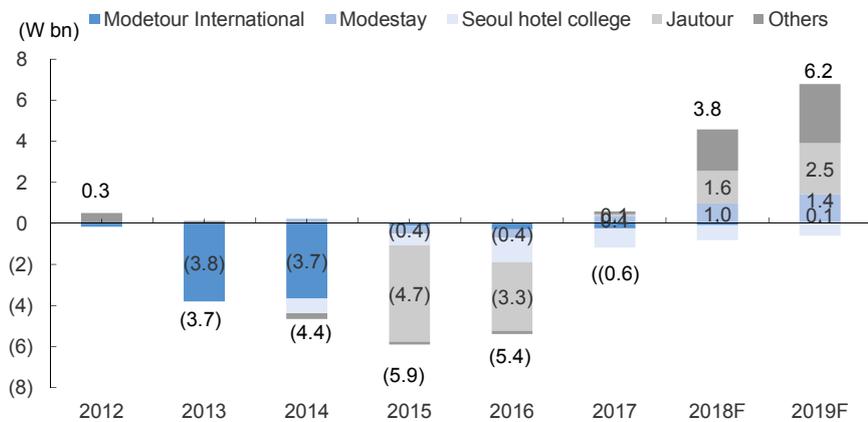
(W bn)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18F	2Q18F	3Q18F	4Q18F
Sales	6.7	8.2	8.8	9.0	10.0	10.7	10.7	13.1	12.2	12.9	12.9	14.4
Modetour International	0.7	0.5	0.4	0.5	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.4
Modestay	2.3	2.8	2.9	3.1	2.7	2.6	2.9	3.5	3.1	2.9	3.3	4.1
Modetour REIT	-	-	-	-	-	-	-	1.0	1.0	1.1	1.1	1.1
Seoul Hotel & Tourism Vocational Training College	0.5	1.4	0.7	1.0	0.4	1.2	0.7	1.0	0.4	1.3	0.7	0.8
Jautour	2.5	2.8	3.9	3.7	5.5	5.4	5.8	6.2	6.2	6.1	6.5	6.9
Mode Tourism Development	0.6	0.7	0.8	0.7	0.6	0.7	0.5	0.5	0.6	0.7	0.6	0.6
Modetour H&D	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cruise International	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Mode Hotel & Realty	-	-	-	-	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
OP	(2.0)	(1.1)	(0.7)	(1.6)	(0.7)	(0.4)	(0.7)	1.3	0.3	0.8	0.6	2.0
Modetour International	0.0	(0.2)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	0.1	(0.1)	(0.0)	0.0
Modestay	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	0.1	0.7	(0.0)	0.1	0.1	0.8
Modetour REIT	-	-	-	-	-	-	-	0.4	0.4	0.5	0.4	0.5
Seoul Hotel & Tourism Vocational Training College	(0.7)	0.1	(0.4)	(0.2)	(0.6)	0.1	(0.3)	(0.1)	(0.5)	0.1	(0.2)	(0.1)
Jautour	(1.0)	(0.8)	(0.3)	(1.2)	0.2	(0.2)	(0.3)	0.3	0.4	0.2	0.2	0.7
Mode Tourism Development	(0.2)	0.0	0.0	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Modetour H&D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cruise International	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Mode Hotel & Realty	-	-	-	-	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1

Note: 1) Jautour was recognized as a consolidated subsidiary in 2Q15; 2) Mode Hotel & Realty was recognized as a consolidated subsidiary in 1Q17; 3) Modetour H&D was acquired by Modestay as of 2Q16 but we provided the numbers in a separate column for a YoY comparison; 4) Modetour REIT was a subsidiary from 1Q14-1Q15, but was classified as an affiliate in 2Q15-3Q17, and reclassified as a subsidiary from 4Q17.

Source: Company data, Korea Investment & Securities

Figure 7. Consolidated subsidiary OP



Note: 1) As of 2018, Modetour has eight consolidated subsidiaries – Modetour International, Modestay, Modetour REIT, Seoul Hotel & Tourism Vocational Training College, Jautour, Cruise International, Mode Tourism Development and Mode Hotel & Realty; 2) Jautour was booked in consolidated accounting since 2Q15, Mode Hotel & Realty was booked in consolidated accounting since 1Q17 and Modetour REIT in 1Q15-2Q15 and since 4Q17
 Source: Company data, Korea Investment & Securities

Table 5. Annual earnings forecasts

	2014	2015	YoY	2016	YoY	2017	YoY	2018F	YoY
Domestic departures (excl. crew)	14,726	17,886	21.5	20,844	16.5	24,837	19.2	28,398	14.3
Modetour total customers	1,431	1,935	35.2	2,299	18.9	2,733	18.8	3,215	17.7
Modetour package buyers	980	1,231	25.5	1,346	9.4	1,504	11.7	1,745	16.1
Market share (%)	9.7	10.8	1.1	11.0	0.2	11.0	(0.0)	11.3	0.3
Sales	164.7	204.3	24.1	237.1	16.0	290.9	22.7	328.4	12.9
Operating costs	148.1	187.9	26.9	217.0	15.5	258.9	19.3	285.6	10.3
OP	16.6	16.5	(0.9)	20.1	22.3	32.0	59.1	42.8	33.7
OPM (%)	10.1	8.1	(2.0)	8.5	0.4	11.0	2.5	13.0	2.0
EBT	19.3	18.0	(7.0)	22.9	27.6	39.4	71.9	44.7	13.6
Controlling-interest NP	15.3	13.2	(13.7)	16.8	26.6	26.5	58.2	32.2	21.2

Source: Company data, Korea Investment & Securities

Table 6. Earnings revisions

	2018F			2019F		
	Previous	Revised	Chg	Previous	Revised	Chg
Sales	324.9	328.4	1.1	359.3	363.4	1.1
OP	41.3	42.8	3.7	46.5	48.7	4.7
OPM	12.7	13.0	0.3	12.9	13.4	0.5
EBT	44.3	44.7	0.9	49.9	50.8	1.9
NP	32.1	32.2	0.2	36.1	36.5	1.2

Source: Korea Investment & Securities

Company overview

Modetour Network (Modetour), established in 1989, provides a wide range of travel services. It went public on the Kosdaq in July 2005. Modetour mainly depends on indirect sales (wholesale) via agencies. As of 2018, it has eight consolidated subsidiaries – Modetour International, Cruise International, Mode Tourism Development, Modestay, Modetour REIT, Seoul Hotel & Tourism Vocational Training College, Jautour and Mode Hotel & Realty

Balance sheet (W bn)

FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
Current assets	114	151	183	204	222
Cash & cash equivalents	45	58	71	80	87
Accounts & other receivables	26	39	48	54	60
Inventory	4	0	0	0	0
Non-current assets	68	59	74	87	98
Investment assets	41	22	26	29	32
Tangible assets	15	22	29	36	43
Intangible assets	5	6	7	7	7
Total assets	182	210	257	290	320
Current liabilities	76	103	132	146	153
Accounts & other payables	42	59	72	81	90
ST debt & bonds	0	2	2	1	0
Current portion of LT debt	1	1	1	0	0
Non-current liabilities	7	5	5	3	2
Debentures	2	0	0	0	0
LT debt & financial liabilities	4	4	4	2	1
Total liabilities	83	108	137	149	155
Controlling interest	100	103	121	142	166
Capital stock	6	6	6	6	6
Capital surplus	28	28	28	28	28
Other reserves	(21)	(29)	(29)	(29)	(29)
Retained earnings	85	98	115	136	160
Minority interest	0	(1)	(1)	(1)	(1)
Shareholders' equity	100	103	120	141	165

Cash flow (W bn)

FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
C/F from operations	(3)	32	46	43	42
Net profit	13	16	27	32	37
Depreciation	2	2	3	5	6
Amortization	1	1	1	1	1
Net incr. in W/C	(19)	12	16	6	(1)
Others	0	1	(1)	(1)	(1)
C/F from investing	(6)	(6)	(25)	(20)	(20)
Capex	(2)	(1)	(11)	(12)	(13)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	6	(8)	(4)	(3)	(2)
Net incr. in intangible assets	(0)	(1)	(2)	(1)	(1)
Others	(10)	4	(8)	(4)	(4)
C/F from financing	(2)	(12)	(9)	(15)	(14)
Incr. in equity	9	0	0	0	0
Incr. in debt	2	1	0	(4)	(2)
Dividends	(6)	(5)	(7)	(9)	(11)
Others	(7)	(8)	(2)	(2)	(1)
C/F from others	(0)	0	0	0	0
Increase in cash	(11)	14	13	8	7

Note: K-IFRS (consolidated)

Income statement (W bn)

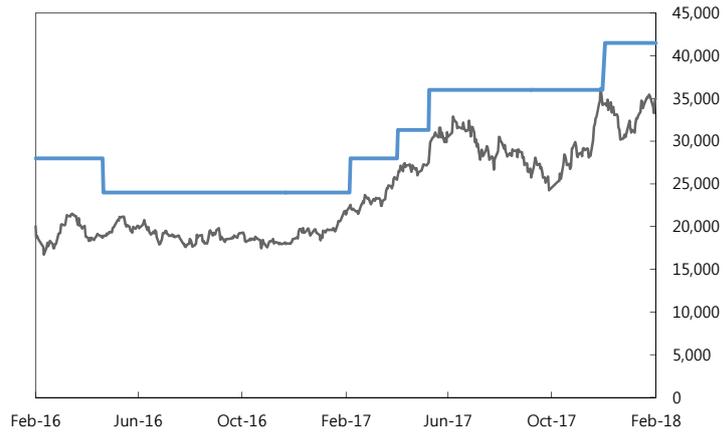
FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
Sales	204	237	291	328	363
COGS	8	11	0	0	0
Gross profit	196	226	291	328	363
SG&A expenses	180	206	259	286	315
Operating profit	16	20	32	43	49
Financial income	1	2	10	2	2
Interest income	1	2	10	2	2
Financial expenses	0	0	1	1	1
Interest expenses	0	0	1	1	1
Other non-operating profit	1	(1)	(3)	1	1
Gains (Losses) in associates, subsidiaries and JV	0	2	1	0	0
Earnings before tax	18	23	39	45	51
Income taxes	5	7	13	13	14
Net profit	13	16	27	32	37
Net profit of controlling interest	13	17	27	32	37
Other comprehensive profit	0	(0)	0	0	0
Total comprehensive profit	13	16	27	32	37
Total comprehensive profit of controlling interest	14	16	27	32	37
EBITDA	20	23	36	48	56

Key financial data

FY-ending Dec.	2015A	2016A	2017F	2018F	2019F
Per-share data (KRW)					
EPS	1,105	1,430	1,470	1,767	2,008
BPS	9,539	10,475	7,905	9,020	10,298
DPS	390	600	500	610	680
Growth (%)					
Sales growth	24.1	16.0	22.7	12.9	10.7
OP growth	(0.9)	22.3	59.1	33.7	13.8
NP growth	(13.7)	26.6	58.2	21.2	13.6
EPS growth	(13.5)	29.4	2.8	20.2	13.6
EBITDA growth	4.2	17.4	58.0	33.4	14.9
Profitability (%)					
OP margin	8.1	8.5	11.0	13.0	13.4
NP margin	6.5	7.1	9.1	9.8	10.1
EBITDA margin	9.6	9.7	12.5	14.7	15.3
ROA	6.3	8.1	11.4	11.8	12.0
ROE	13.4	16.5	23.7	24.5	23.7
Dividend yield	1.7	3.1	1.6	1.7	1.9
Dividend payout ratio	34.8	41.2	34.3	34.5	33.9
Stability					
Net debt (W bn)	(64)	(93)	(115)	(131)	(143)
Int.-bearing debt/equity (%)	6.9	7.2	4.5	1.3	0.5
Valuation (x)					
PE	20.3	13.5	20.7	19.8	17.4
PB	2.4	1.8	3.9	3.9	3.4
EV/EBITDA	17.0	10.5	12.0	10.4	8.7

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Modetour Network(080160)	05-01-16	BUY	W33,400	-37.3	-33.1
	02-02-16	BUY	W28,000	-31.1	-23.2
	22-04-16	BUY	W24,000	-20.5	-7.0
	07-02-17	BUY	W28,000	-16.9	-7.9
	04-04-17	BUY	W31,300	-14.1	-12.3
	11-05-17	BUY	W36,000	-18.8	0.6
	04-12-17	BUY	W41,500	-	-



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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
- Underweight: Expected to underperform the market index by 15%p or more
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Dec 31, 2017)**

BUY	Hold	Underweight (Sell)
79.6%	19.9%	0.5%

Note: % of companies under coverage with this rating

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- 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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