Yuanta Securities (Korea)

Company Report
Feb 6, 2018

Modetour Network (080160 KS)

Hotel/leisure

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Rating	BUY (M)
Target price	W44,000 (U)
Current price (Feb 1)	W34,950
Upside potential	26%

Market cap (Wbn)	661
Shares outstanding	18,900,000
Avg daily T/O (2M, Wbn)	8
Avg daily volume (2M, shrs)	239,014
52-week high (won)	36,200
52-week low (won)	21,411
Foreign ownership (%)	42.7
Major shareholders (%)	
Jong-ung Woo & others	16.1

Stock performance

(%)	1M	3M	12M
Absolute	14.6	23.5	6.7
Relative	0.7	(5.4)	(26.7)
Abs (US$)	14.4	28.4	15.3

4Q17: consol subsidiary earnings strong

4Q17 review: parent OP down, consolidated subsidiaries earnings surprise

- Consolidated sales came to W77.0bn (+30% YoY), OP W5.5bn (+45% YoY), and NP W6.5bn (+127% YoY). OP missed consensus by about 10%. Parent sales came to W65.2bn (+29% YoY) and OP W4.5bn (-17% YoY). 1) Overseas package tourists rose to 400,000 (+15% YoY) and package ASP W877,000 (+11% YoY). 2) Package mark-up also rose 0.4%p YoY from 14.9% in 4Q16 to 15.3% in 4Q17, driving almost 30% top-line growth. 3) Meanwhile, operating expense surged to W60.8bn (+34% YoY) on year-end bonuses and a sharp rise in ad spending (W4.0bn in 4Q16 to W7.9bn in 4Q17). Ad spending rose due to upfront payment for an endorsement by actor Kim Soo-hyun, TV commercial production, media buying, and product placement in TV series. **Excluding bonuses and ad spending, parent OP would have exceeded W11.0bn. Consolidated subsidiaries' combined sales came to W11.7bn (+39% YoY) and OP W1.1bn (turning to profit YoY), seeing a profit for the first time in 12 quarters. Among major subsidiaries, Jau Tour OP came to W300mn, Mode Stay W700mn, and Modetour REITs W400mn.** Jau Tour's package tourists came to 49,000 (+28% YoY), continuing solid growth. Sales at Jau Tour surged to W6.2bn (+67% YoY). As management has normalized since its acquisition by Modetour, COGS competitiveness and brand value have continued to recover. Jau Tour shifted ad spending from traditional media to online targeted ads, improving efficiency. **2) Mode Stay's OPM came to 20% in 4Q17,** after turning to profit in 3Q17, on a higher average daily rate and a shift in focus towards non-Chinese customers. Staz Hotel, operated by Mode Stay, is a three-star hotel (which usually have high margins). However, earnings have continued to be weak due to hotel oversupply in Seoul, weak sales at the Dongtan branch (#3), and the THAAD issue. 3) Modetour REITs became a consolidated subsidiary in 4Q17. Modetour's stake in Modetour REITs rose from 29.4% to 42.2%. Based on a higher stake in Modetour REITs, Modetour Network will likely enjoy synergies with Modestay in the future.

Parent strong and leverage effect at subsidiaries

- We maintain BUY and revise up our target price from W38,000 to W44,000, based on 2018E EPS of W1,747 and a target P/E of 25x. We expect the parent company to continue growing in 2018 on LCC-led flight supply growth. In 4Q18, Modetour may enjoy even base effect. Excluding Seoul Hotel & Tourism Vocational College, we believe consolidated subsidiaries have entered a profit-making phase. Based on its competitiveness as Korea's second-largest outbound tour operator, it plans to adopt a proven business model such as Hana Tour Japan for overseas subsidiaries. Thus, it may see additional leverage effects.

Quarterly earnings

(Wbn)	4Q17E	% YoY	% QoQ	Consens	vs consens (%)
Sales	77	30.3	5.9	72	6.4
OP	6	45.4	-31.8	6	-13.7
Pre-tax net profit	12	172.2	37.5	6	82.6
Net profit, CI	6	127.4	10.9	5	22.5
OPM (%)	7.2	+0.7 %pt	-4.0 %pt	8.9	-1.7 %pt
NPM (%)	8.4	+3.6 %pt	+0.3 %pt	7.3	+1.1 %pt

Source: Yuanta Securities

Forecasts and valuations (K-IFRS, consolidated) (Wbn)

FY ends Dec	2015A	2016A	2017E	2018E
Sales	204	237	291	340
OP	16	20	32	44
Net profit, CI	13	17	27	33
P/E (x)	33.1	21.6	24.9	20.0
P/B (x)	4.1	3.2	4.6	4.0
EV/EBITDA	19.1	11.7	16.9	12.2
ROE (%)	13.4	16.5	22.1	22.4

Source: Yuanta Securities

4Q17 consolidated OP W6.0bn (+45% YoY) (Wbn)

	2016				2017				2018				Full-year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QP	1QE	2QE	3QE	4QE	2016	2017	2018E
Consolidated sales	**60**	**54**	**64**	**59**	**74**	**67**	**73**	**77**	**89**	**75**	**90**	**86**	**237**	**291**	**340**
Parent	53	46	56	51	64	57	63	65	76	62	76	70	206	249	284
Subsidiaries	6	8	9	8	10	10	10	12	13	14	14	16	31	42	56
Modetour International	1	1	0	1	0	0	0	0	0	0	0	0	2	2	2
Jau Tour	3	3	4	4	6	5	6	6	7	7	8	8	13	23	30
Cruise International	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Modetour H&D	0	0	-	-	-	-	-	-	-	-	-	-	0	-	-
Mode Dev of Tourism	1	1	1	1	1	1	1	1	1	1	1	1	3	2	2
Modetour REITs	-	-	-	-	-	-	-	1	1	1	1	1	-	1	4
Seoul Hotel & Tourism Vocational College	1	1	1	1	0	1	1	1	0	1	1	1	4	3	3
Mode Stay	2	3	3	3	3	3	3	4	3	3	3	4	11	12	13
Danang Hotel	-	-	-	-	0	0	0	0	0	0	0	0	0	2	2
Consolidated operating profit	**5**	**4**	**8**	**4**	**11**	**7**	**8**	**6**	**14**	**7**	**14**	**10**	**20**	**32**	**44**
Parent	7	5	9	5	12	8	9	5	14	6	13	9	26	33	42
Subsidiaries	-2	-1	-1	-2	-1	-1	-1	1	0	1	1	1	-6	-1	2
Modetour International	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Jau Tour	-1	-1	0	-1	0	0	0	0	0	0	1	0	-3	0	1
Cruise International	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Modetour H&D	0	0	-	-	-	-	-	-	-	-	-	-	0	-	-
Mode Dev of Tourism	0	0	0	0	0	0	0	0	0	0	0	0	0	-1	0
Modetour REITs	-	-	-	-	-	-	-	0	0	0	0	0	-	0	2
Seoul Hotel & Tourism Vocational College	-1	0	0	0	-1	0	0	0	-1	0	0	0	-1	-1	-1
Mode Stay	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1
Danang Hotel	-	-	-	-	0	0	0	0	0	0	0	0	-	0	0
Operating margin (%)	8	7	13	6	15	11	11	7	16	9	15	11	8	11	13
Parent	12	10	16	11	19	14	14	7	18	10	17	13	12	13	15
Subsidiaries	-31	-14	-8	-19	-9	-5	-7	9	2	4	6	5	-18	-2	4
Cons net profit, CI	**3.9**	**3.6**	**6.9**	**3.0**	**8.1**	**6.0**	**6.3**	**6.5**	**10.4**	**4.9**	**10.5**	**7.4**	**16.8**	**26.5**	**33.0**
Net margin (%)	7	7	11	5	11	9	9	8	12	6	12	9	7	9	10
Growth (% YoY)															
Cons sales	18	9	25	12	24	24	13	30	20	12	24	11	16	23	17
Cons operating profit	-28	-29	150	123	155	101	-2	45	28	-12	70	77	22	59	38
Cons net profit	-31	-13	113	952	130	70	-7	127	29	-19	65	14	27	58	23
[Parent earnings assumption]															
[Traveler indicator]															
Mode package tourists ('000)	360	300	340	350	420	330	350	400	480	380	420	470	1,350	1,500	1,750
(% YoY)	6	5	17	10	18	10	3	15	15	15	19	17	9	12	16
Package ASP (W'000)	859	846	894	793	872	917	939	877	890	862	948	806	848	899	876
(% YoY)	-2	-3	3	-8	2	9	5	11	2	-6	1	-8	-2	6	-3
Sales conversion rate (package)	14.3	15.0	15.8	14.9	15.1	15.7	15.6	15.3	15.1	15.5	15.7	15.0	15.0	15.4	15.3
Parent net revenue	**53**	**46**	**56**	**51**	**64**	**57**	**63**	**65**	**76**	**62**	**76**	**70**	**206**	**249**	**284**
Commission from air ticket sales	4	3	4	4	3	4	4	5	4	5	5	6	15	16	21
Commission from package tour sales	44	38	48	41	55	48	52	54	65	51	63	57	172	208	235
Other	5	5	4	6	6	6	7	7	7	6	9	7	19	25	29
Parent operating expense	47	42	47	45	52	49	54	61	62	56	63	61	180	216	242
Wage and bonus	15	13	14	14	16	15	16	17	16	17	17	17	56	64	67
Ad & PR	4	4	3	4	4	4	4	8	5	5	5	5	14	20	20
Commissions paid	23	19	24	21	27	24	27	28	34	28	34	31	87	107	127
Other	6	5	6	6	6	6	6	8	7	7	7	8	23	26	29
Parent operating profit	**7**	**5**	**9**	**5**	**12**	**8**	**9**	**5**	**14**	**6**	**13**	**9**	**26**	**33**	**42**
Operating margin (%)	12	10	16	11	19	14	14	7	18	10	17	13	12	13	15

Source: Yuanta Securities

Jau Tour: quarterly earnings

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17P	2015	2016	2017
Package tourists ('000)	18,217	20,460	26,248	27,327	29,692	27,522	32,028	38,459	52,744	41,502	46,208	49,292	92,252	127,701	189,746
Change (% YoY)	28	66	62	89	63	35	22	41	78	51	44	28	61	38	49
Tickets sales ('000)	4,208	5,712	5,781	8,844	8,677	10,538	10,613	20,232	39,183	60,154	56,755	51,899	24,545	50,060	207,991
Change (% YoY)	21	65	32	121	106	84	84	129	352	471	435	157	60	104	316
Sales (Wbn)	2	2	2	2	3	3	4	4	6	5	6	6	8	13	23
Package products	1	1	1	1	2	2	2	2	4	3	4	-	5	8	-
Tickets	0	0	0	0	0	0	0	0	0	0	0	-	1	0	-
Rent	0	0	0	0	0	0	0	0	0	0	0	-	0	0	-
Other	0	0	1	1	1	1	2	1	2	2	2	-	2	4	-
SG&A (Wbn)	2	3	3	4	4	4	4	5	5	6	6	6	13	16	23
OP (Wbn)	-1	-1	-1	-2	-1	-1	0	-1	0.2	-0.2	-0.3	0.3	-5	-3	0
Sales (% YoY)	49	11	-16	68	39	57	92	64	116	93	48	67	22	63	77
Package sales (%YoY)	22	8	14	60	38	56	71	70	119	69	65	-	24	59	-

Source: Company data, Yuanta Securities

Modetour Network (080160 KS) pro forma financial statements (K-IFRS, consolidated)

Statement of comprehensive income

FY ends Dec (Wbn)	2015A	2016A	2017E	2018E	2019E
Sales	**204**	**237**	**291**	**340**	**377**
Cost of sales	8	11	11	8	8
Gross profit	196	226	280	332	370
SG&A	180	206	248	288	317
Operating profit	**16**	**20**	**32**	**44**	**53**
EBITDA	20	23	35	47	56
Non-op profit/loss	1	3	7	0	1
Forex gain/loss	0	1	-1	0	0
Net interest income	1	1	1	1	1
Equity-meth gain/loss	0	2	1	0	0
Other	0	-1	6	-1	0
Net prof before income tax	18	23	39	44	55
Income tax	5	7	13	11	13
Net profit from continuing ops	13	16	27	33	41
Net profit from discontinued ops	0	0	0	0	0
Net profit	13	16	27	33	41
NP for controlling interest	**13**	**17**	**27**	**33**	**41**
Total comprehensive income	13	16	26	32	40
Total comprehensive income, CI	14	16	27	33	41

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

Statement of financial position

FY ends Dec (Wbn)	2015A	2016A	2017E	2018E	2019E
Current assets	**114**	**151**	**190**	**221**	**254**
Cash & cash equivalents	45	58	57	84	111
Accts rec & other	26	39	48	53	59
Inventory	4	0	0	0	0
Non-current assets	68	59	121	120	121
Tangible assets	15	22	22	22	22
Investment in affiliates	25	21	8	8	8
Other non-current	16	1	6	6	6
Total assets	**182**	**210**	**311**	**342**	**375**
Current liabilities	76	103	136	141	146
Accts payable & other	42	59	69	69	69
ST financial liabilities	0	0	17	22	27
Liquid LT liabilities	1	1	1	1	1
Non-current liabilities	7	5	33	33	33
LT financial liabilities	2	2	30	30	30
Debentures	2	0	0	0	0
Total liabilities	**83**	**108**	**169**	**174**	**179**
Equity, controlling interest	100	103	137	158	185
Paid-in capital	6	6	9	9	9
Capital surplus	28	28	29	29	29
Retained earnings	85	98	117	139	166
Equity, non-controlling interest	0	-1	5	9	11
Total equity	**100**	**103**	**142**	**168**	**196**
Net debt	**-64**	**-93**	**-82**	**-103**	**-125**
Total debt	6	7	50	55	60

Cash flow statement

FY ends Dec (Wbn)	2015A	2016A	2017E	2018E	2019E
Operating cash flow	**-3**	**32**	**35**	**47**	**55**
Net profit	13	16	27	33	41
Depreciation & amortization	2	2	2	2	2
Forex gain/loss	0	-1	1	0	0
Affiliate invest gain/loss	0	-1	-1	0	0
Inc (dec) in net working cap	-19	12	4	10	10
Other	1	4	2	2	1
Investing cash flow	**-6**	**-6**	**-37**	**-9**	**-9**
Investment	1	7	-7	0	0
Inc in tangible assets	-2	-1	-2	-3	-3
Dec in tangible assets	0	0	0	0	0
Other	-4	-12	-29	-7	-7
Financing cash flow	**-2**	**-12**	**17**	**-6**	**-9**
Inc (dec) in ST fin liab	-2	0	5	5	5
Inc (dec) in LT fin liab	4	0	2	0	0
Inc (dec) in equity	9	0	0	0	0
Cash dividend	-6	-5	-7	-11	-14
Other	-6	-8	16	0	0
Other cash flow	0	0	-16	-5	-9
Inc (dec) in cash & equivalents	**-11**	**14**	**-1**	**27**	**27**
Beginning cash & equivalents	55	45	58	57	84
Ending cash & equivalents	45	58	57	84	111
NOPLAT	16	20	**32**	**44**	**53**
FCF	**-7**	**27**	**27**	**43**	**50**

Valuation

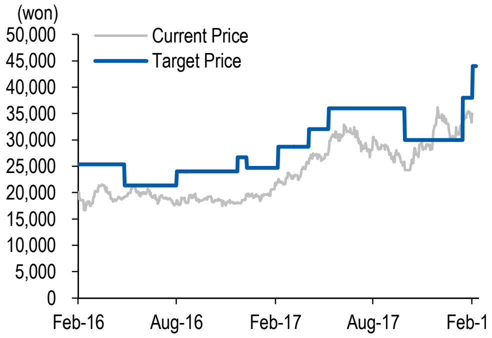
FY ends Dec	2015A	2016A	2017E	2018E	2019E
EPS (won)	1,051	1,330	1,403	1,747	2,170
BPS (won)	8,432	8,976	7,531	8,706	10,180
EBITDA/shr (won)	1,550	1,820	1,832	2,466	2,959
SPS (won)	16,216	18,816	15,394	17,985	19,972
DPS (won)	390	600	600	780	1,000
P/E (x)	**33.1**	**21.6**	**24.9**	**20.0**	**16.1**
P/B (x)	**4.1**	**3.2**	**4.6**	**4.0**	**3.4**
EV/EBITDA (x)	**19.1**	**11.7**	**16.9**	**12.2**	**9.8**
P/S (x)	**2.1**	**1.5**	**2.3**	**1.9**	**1.7**

Key financial data

FY ends Dec	2015A	2016A	2017E	2018E	2019E
Sales (% YoY)	**24.1**	**16.0**	**22.7**	**16.8**	**11.0**
Operating profit (%YoY)	**-0.9**	**22.3**	**59.1**	**37.4**	**21.0**
Net profit, CI (%YoY)	**-13.7**	**26.6**	**58.2**	**24.5**	**24.2**
Gross margin (%)	96.0	95.3	96.2	97.8	98.0
Operating margin (%)	**8.1**	**8.5**	**11.0**	**12.9**	**14.1**
Net margin, CI (%)	6.5	7.1	9.1	9.7	10.9
EBITDA margin (%)	9.6	9.7	11.9	13.7	14.8
ROIC (%)	-65.0	-85.8	-79.4	-106.5	-153.3
ROA (%)	6.5	8.5	10.2	10.1	11.4
ROE (%)	**13.4**	**16.5**	**22.1**	**22.4**	**23.9**
Debt-to-equity (%)	83.1	104.9	118.3	103.4	91.1
Net debt-to-equity (%)	-64.7	-90.0	-59.6	-65.2	-67.7
OP/financing cost (x)	37.0	46.2	159.9	158.2	174.7

Note: CI = controlling interest
EPS, BPS, P/E and P/B are based on controlling interest
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior
Source: Yuanta Securities

Modetour Network (080160 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/02/02	BUY	44,000	1 yr		
2018/01/15	BUY	38,000	1 yr	-8.94	-6.71
2017/09/29	BUY	30,000	1 yr	2.28	20.67
2017/07/18	Bonus offering	36,000		-	-
2017/07/04	BUY	36,000	1 yr	-19.58	-16.11
2017/05/11	BUY	36,019	1 yr	-13.49	-8.70
2017/04/04	BUY	32,017	1 yr	-16.04	-14.27
2017/02/06	BUY	28,682	1 yr	-18.94	-10.12
2016/12/10	BUY	24,679	1 yr	-19.86	-11.35
2016/11/23	BUY	26,681	1 yr	-30.47	-26.13

Note: Difference = (actual price* - target price) / target price x 100
* 1) The average price until the day target price was suggested
2) The highest (lowest) price until the day target price was suggested
Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.4
BUY	85.3
HOLD	13.3
SELL	0.0
Total	100.0

Note: As of Jan 30
Excluding reports written or published by overseas affiliates

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Analyst certification

I/We, as the research analyst/analysts who prepared this research report, do hereby certify that the views expressed in this report accurately reflect my/our personal views about the subject securities discussed in this report.

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
  - Buy: Expected to return between 10% and 30%
  - Hold: Expected to return between -10 and +10%
  - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
  - Overweight: Investment weighting is higher than the market capitalization weighting
  - Neutral: Investment weighting is equal to the market capitalization weighting
  - Underweight: Investment weighting is lower than the market capitalization weighting

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