

May 3, 2018

Modetour Network (080160)

Profits contract despite top-line growth

- OP down 17% YoY on SG&A expenses and subsidiary losses
- Overseas subsidiaries contribute sooner than expected, Japanese subsidiaries consolidated from 1Q18
- Momentum to firm HoH in 2H18

Facts: OP falls 17% YoY, missing consensus

1Q18 results fell short of consensus with consolidated sales of W109.8bn (+21.5% YoY) and OP of W9.1bn (-17.1% YoY). Separate sales reached W94.3bn (+18.6% YoY) and OP W10.5bn (-10.3% YoY). The total number of domestic outbound travelers grew 14.4%, while Modetour's outbound traffic and package users grew by 7.7% and 7.2%, respectively. In addition, advertising expenses increased to W7.0bn (+89.7% YoY) as TV ads were aired until January; undermining earnings. Of note, the sales recognition standard changed under K-IFRS 15, and hard block sales are now considered part of total sales rather than net sales. Accordingly, sales and COGS are higher while OP is unchanged.

Pros & cons: Overseas subsidiaries contribute, but earnings contract

Modetour has secured new sales engines by expanding overseas based on domestic outbound travel patterns. Previously, we forecast these overseas subsidiaries would contribute to earnings from 2H18. However, the contribution is already beginning as Modetour Japan was added as a consolidated subsidiary in 1Q18 and generated gains of W300mn. Currently, subsidiaries in Europe, China and other markets are preparing to ramp up operations. However, earnings eroded at both the parent and subsidiary levels. Specifically, 1Q18 parent OPM eroded to 11.2% (-3.6%p YoY). Currently, Modetour's nine overseas subsidiaries, including Modetour Japan, are posting combined operating losses of W1.4bn, down compared to both 1Q17 (W0.7bn loss) and 4Q17 (W1.3bn loss). Of note, Jautour's total users are up 17.1% YoY and package users 59.9% YoY, which is fueling top-line growth. However, the company turned to an operating loss of W0.5bn on higher marketing expenses, similar to the parent company.

Action: Significant improvement from 2H18; Maintain BUY

We maintain BUY and a TP of W46,000 (22x 12MF PE). Korea's outbound travel market should benefit from structural growth, but earnings momentum is unlikely to ramp up until 2H18 given local elections and the World Cup. 2018 overseas subsidiary earnings should reach a profit of W1.9bn, contributing to consolidated earnings growth.

Below	In line	Above
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vs. OP consensus

12M rating **BUY (Maintain)**

12M TP **W46,000** from W46,000

Up/downside **+26%**

Stock Data

KOSPI (May 2, pt)	2,506
Stock price (May 2, KRW)	36,450
Market cap (USD mn)	640
Shares outstanding (mn)	19
52-Week high/low (KRW)	40,450/24,250
6M avg. daily turnover (USD mn)	6.5
Free float / Foreign ownership (%)	79.4/43.1
Major shareholders (%)	
Jong-Ung Woo and 14 others	16.1
NPS	7.4

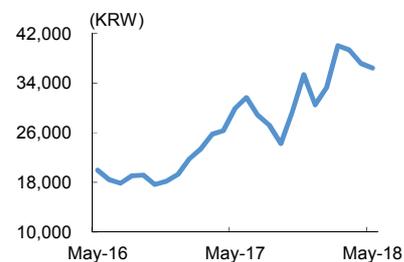
Valuation

	2017A	2018F	2019F
PE (x)	22.8	20.3	15.8
PB (x)	3.8	3.9	3.4
ROE (%)	20.3	22.5	24.5
DY (%)	1.5	1.7	1.9
EV/EBITDA (x)	13.9	13.0	10.2
EPS (KRW)	1,340	1,799	2,301
BPS (KRW)	8,121	9,256	10,797

Performance

	1M	6M	12M
Absolute (%)	(4.7)	29.5	37.1
Relative to KOSDAQ (%p)	(5.1)	4.1	(1.9)

Stock price trend



Source: WISEfn

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Table 1. 1Q18 earnings

(W bn, %p)

	1Q17	2Q17	3Q17	4Q17	1Q18P	QoQ (%)	YoY (%)	Consensus
Sales	90.4	67.3	72.7	77.0	109.8	42.7	21.5	82.8
OP	11.0	7.3	8.1	5.7	9.1	61.5	(17.1)	11.4
OP margin (%)	12.2	10.9	11.2	7.3	8.3	1.0	(3.9)	13.7
EBT	10.9	8.4	8.5	5.1	9.6	88.5	(11.2)	12.4
NP	8.1	6.1	5.9	4.2	7.4	79.0	(8.1)	8.8

Note: 2Q~3Q17 are based on pre-revision figures based on K-IFRS 1115
Source: Company data, FnGuide, Korea Investment & Securities

Table 2. Quarterly earnings (consolidated)

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

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18F	3Q18F	4Q18F
Domestic departures	5,178	4,695	5,659	5,312	6,114	5,713	6,572	6,438	6,997	6,351	7,600	7,476
Modetour total users	578	519	613	589	709	630	695	698	764	666	820	831
Modetour package users	356	303	340	347	420	333	352	399	450	359	411	476
Market share (%)	11.2	11.1	10.8	11.1	11.6	11.0	10.6	10.8	10.9	10.5	10.8	11.1
Sales	59.5	54.3	64.2	59.1	90.4	82.2	88.8	94.0	109.8	94.4	112.0	113.6
Parent	53.1	46.4	55.7	50.7	79.5	70.8	77.2	80.6	94.3	77.4	91.8	92.0
Subsidiaries	6.7	8.2	8.8	9.0	10.0	10.7	10.7	13.1	17.0	16.2	19.2	20.6
Operating costs	55.2	50.6	55.9	55.2	79.4	74.9	80.7	88.4	100.7	87.5	98.9	101.5
OP	4.3	3.7	8.3	3.8	11.0	7.3	8.1	5.6	9.1	6.9	13.1	12.1
OPM	7.3	6.8	13.0	6.5	12.2	8.9	9.2	6.0	8.3	7.3	11.7	10.6
EBT	4.9	4.7	9.1	4.3	10.9	8.4	8.5	5.1	9.6	7.6	13.7	12.0
NP	3.5	3.5	6.9	2.9	8.1	6.1	5.9	4.1	7.4	5.8	10.6	9.3
(YoY)												
Domestic departures	18.9	14.7	21.3	11.4	18.1	21.7	16.1	21.2	14.4	11.2	15.6	16.1
Modetour total users	18.8	18.2	26.1	12.8	22.6	21.5	13.5	18.4	7.7	5.6	17.9	19.0
Modetour package users	6.3	5.3	16.7	9.8	17.8	10.0	3.5	15.0	7.2	7.8	16.8	19.1
Market share (%)	(0.0)	0.3	0.4	0.1	0.4	(0.0)	(0.2)	(0.3)	(0.7)	(0.6)	0.2	0.3
Sales	18.2	9.4	24.8	11.6	51.8	51.4	38.3	59.2	21.5	14.9	26.1	20.8
Parent	13.4	5.9	22.5	9.8	49.7	52.8	38.7	59.1	18.6	9.3	18.9	14.1
Subsidiaries	53.2	15.8	54.4	20.3	50.8	30.5	21.1	46.2	69.6	51.0	79.4	57.1
Operating costs	25.2	13.9	16.1	7.9	43.8	47.9	44.3	60.0	26.8	16.9	22.6	14.9
OP	(30.9)	(28.9)	149.6	123.3	154.8	99.9	(2.3)	48.1	(17.1)	(5.3)	61.4	113.9
OPM	(5.2)	(3.6)	6.5	3.2	4.9	2.2	(3.8)	(0.5)	(3.9)	(1.6)	2.6	4.6
EBT	(33.9)	(25.7)	118.8	2,929.1	122.1	81.4	(7.0)	20.0	(11.2)	(10.5)	61.6	133.9
Controlling-interest NP	(37.5)	(13.9)	113.1	897.0	130.5	71.6	(14.5)	45.3	(8.1)	(4.5)	80.6	123.6

Note: 1. Excluding crew for domestic departures; 2. Revised recognition of sales by K-IFRS 1115, 2Q17~4Q17 sales and operating expenses were adjusted based on KIS estimates for comparison

Source: Company data, Korea Investment & Securities

Table 3. Quarterly earnings (non-consolidated)

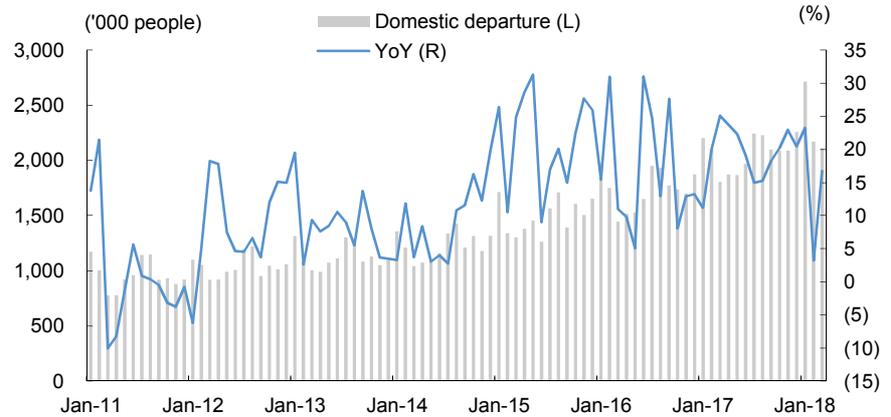
(W bn, %, %p)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	QoQ	YoY
Sales	53.1	46.4	55.7	50.7	64.3	57.3	62.5	65.2	94.3	16.9	18.6
Air tickets	4.4	3.4	3.6	4.0	3.4	3.7	3.7	4.8	5.0	3.8	47.8
Travel commissions	43.8	38.3	48.2	41.2	55.1	48.0	51.7	53.5	77.2	12.1	9.8
Others	4.9	4.7	4.0	5.5	5.8	5.6	7.1	6.9	12.1	74.7	108.5
Operating costs	46.8	41.6	46.6	45.3	52.6	49.4	53.6	60.8	83.8	10.0	23.6
OP	6.3	4.8	9.0	5.4	11.7	7.9	8.8	4.5	10.5	135.9	(10.3)
OPM	11.9	10.3	16.2	10.6	18.3	13.7	14.1	6.8	11.2	5.6	(3.6)
EBT	6.8	5.7	9.6	3.3	11.5	10.1	9.5	2.2	12.1	NM	5.6
NP	5.2	4.3	7.4	2.5	8.8	7.5	7.2	2.0	9.6	NM	9.3

Note: Revised recognition of sales by K-IFRS 1115, 2Q17~4Q17 sales and operating expenses were adjusted based on KIS estimates for comparison

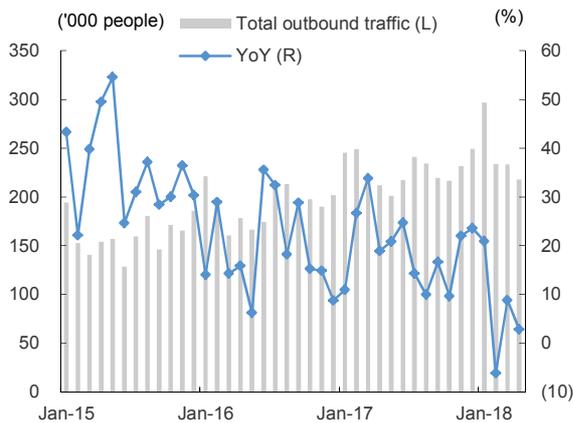
Source: Company data, Korea Investment & Securities

Figure 1. Domestic departures



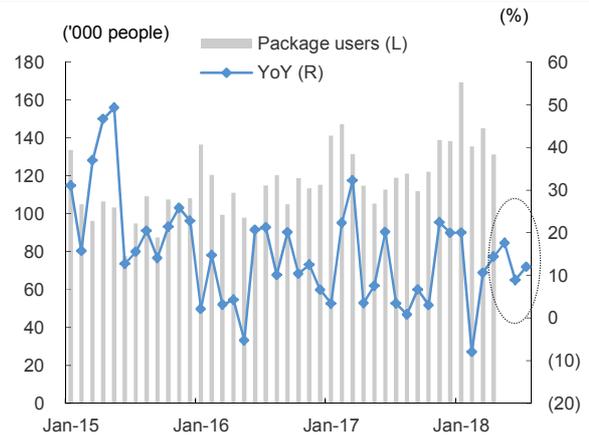
Note: Excluding crew for domestic departures
Source: Company data, Korea Investment & Securities

Figure 2. Modetour total outbound traffic growth



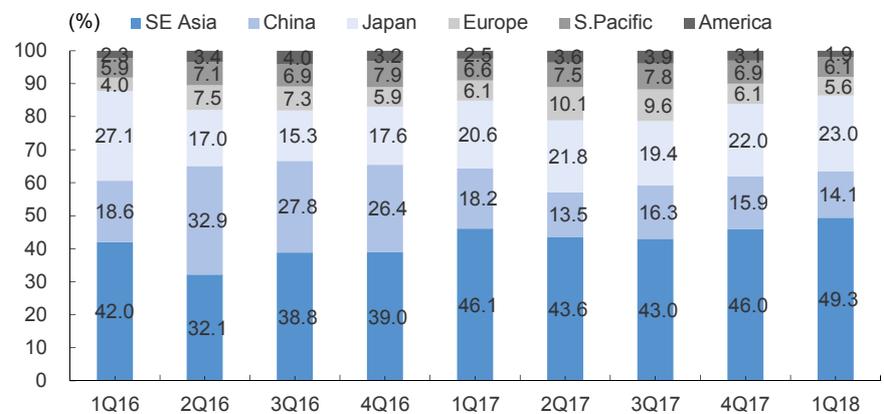
Source: Company data, Korea Investment & Securities

Figure 3. Modetour package buyers and reservation rates



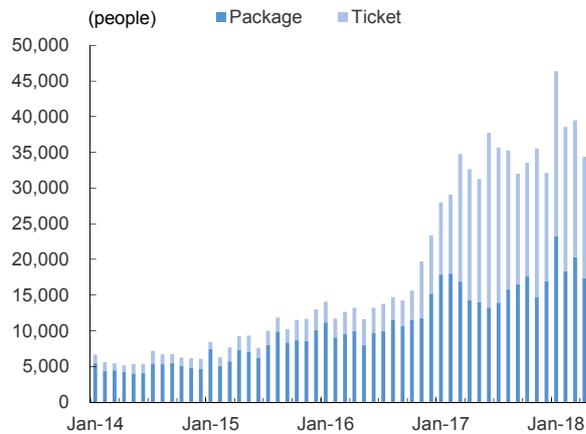
Note: May-Jul 2018 reservation rate from data released on May 2
Source: Company data, Korea Investment & Securities

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



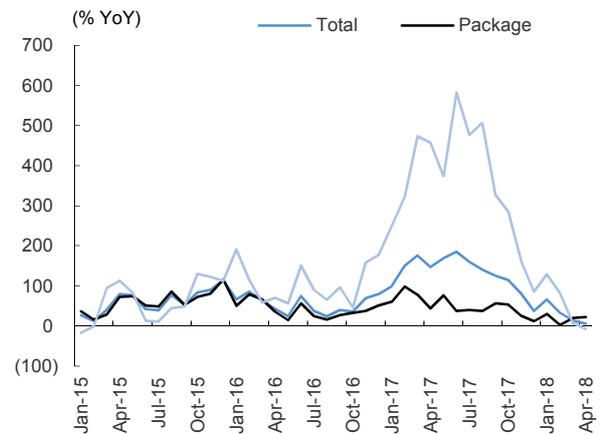
Source: Company data, Korea Investment & Securities

Figure 5. Jautour outbound traffic



Source: Company data, Korea Investment & Securities

Figure 6. Jautour traffic and YoY growth by category



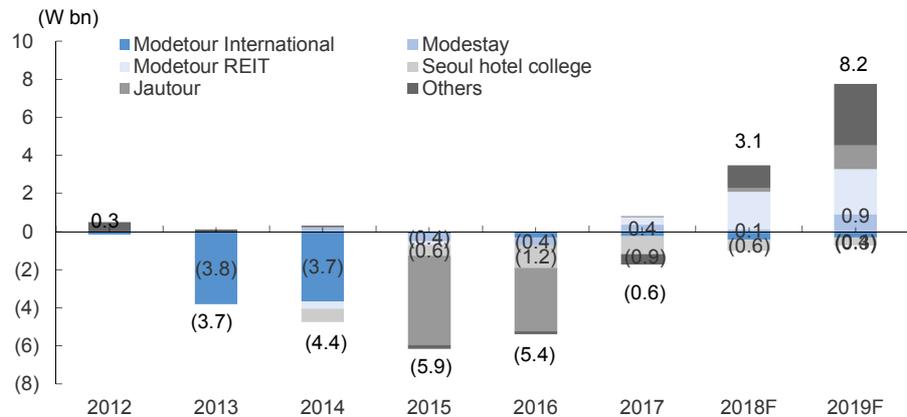
Source: Company data, Korea Investment & Securities

Table 4. Consolidated subsidiary quarterly earnings

(W bn)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18F	3Q18F	4Q18F
Sales	6.7	8.2	8.8	9.0	10.0	10.7	10.7	13.1	17.0	16.2	19.2	20.6
Modetour International	0.7	0.5	0.4	0.5	0.4	0.3	0.4	0.4	0.0	0.3	0.4	0.4
Modestay	2.3	2.8	2.9	3.1	2.7	2.6	2.9	3.5	2.8	2.9	4.5	5.4
Modetour REIT	-	-	-	-	-	-	-	1.0	1.1	1.1	2.1	2.1
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	11.1	8.6	8.8	9.0
Mode Tourism Development	0.6	0.7	0.8	0.7	0.6	0.7	0.5	0.5	0.4	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
Modetour Japan	-	-	-	-	-	-	-	-	0.8	0.8	1.2	1.4
Other overseas branches	-	-	-	-	-	-	-	-	-	-	0.5	0.5
OP	(2.0)	(1.1)	(0.7)	(1.6)	(0.7)	(0.4)	(0.7)	1.3	(1.4)	0.0	1.6	2.8
Modetour International	0.0	(0.2)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	(0.2)	(0.2)	(0.0)	0.0
Modestay	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	0.1	0.7	(0.6)	(0.4)	0.3	0.8
Modetour REIT	-	-	-	-	-	-	-	0.4	0.5	0.5	0.4	0.6
Seoul Hotel & Tourism Vocational Training College	(0.7)	0.1	(0.4)	(0.2)	(0.6)	0.1	(0.3)	(0.1)	(0.6)	0.2	(0.2)	0.1
Jautour	(1.0)	(0.8)	(0.3)	(1.2)	0.2	(0.2)	(0.3)	0.3	(0.5)	(0.3)	0.4	0.6
Mode Tourism Development	(0.2)	0.0	0.0	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)	(0.2)	(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	0.1	0.2	0.2	0.1
Modetour Japan	-	-	-	-	-	-	-	-	0.3	0.3	0.4	0.4
Other overseas branches	-	-	-	-	-	-	-	-	-	-	0.1	0.3

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. 5. Assumed Modetour Japan contribute to earnings from 1Q18, other overseas branches from 3Q18
Source: Company data, Korea Investment & Securities

Figure 7. Consolidated subsidiary OP


Note: 1. As of May 2018, Modetour has nine consolidated subsidiaries – Modetour International, Modestay, Modetour REIT, Seoul Hotel & Tourism Vocational Training College, Jautour, Cruise International, Mode Tourism Development, Mode Hotel & Realty and Modetour Japan; 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; 3. Assumed Modetour Japan will contribute earnings from 1Q18, and other overseas branches from 3Q18
Source: Company data, Korea Investment & Securities

Table 5. Annual earnings forecasts

('000 people, W bn)

	2015	2016	YoY	2017	YoY	2018F	YoY	2019F	YoY
Domestic departures (excl. crew)	17,886	20,844	16.5	24,837	19.2	28,423	14.4	31,603	11.2
Modetour total customers	1,935	2,299	18.9	2,733	18.8	3,080	12.7	3,614	17.3
Modetour package buyers	1,231	1,346	9.4	1,504	11.7	1,696	12.8	1,904	12.3
Market share (%)	10.8	11.0	0.2	11.0	(0.0)	10.8	(0.2)	11.4	0.6
Sales	204.3	237.1	16.0	355.4	49.9	429.9	20.9	483.3	12.4
Operating costs	187.9	217.0	15.5	323.3	49.0	388.6	20.2	431.0	10.9
OP	16.5	20.1	22.3	32.1	59.6	41.3	28.5	52.3	26.7
OPM (%)	8.1	8.5	0.4	9.0	0.5	9.6	0.6	10.8	1.2
EBT	18.0	22.9	27.6	32.9	43.5	42.9	30.3	54.8	27.9
Controlling-interest NP	13.2	16.8	26.6	24.2	44.2	33.1	36.9	41.9	26.6

Note: Revised recognition of sales by K-IFRS 1115, 2Q17~4Q17 sales and operating expenses were adjusted based on KIS estimates for comparison
Source: Company data, Korea Investment & Securities

Table 6. Earnings revisions

(W bn, %, %p)

	2018F			2019F		
	Previous	Revised	Chg	Previous	Revised	Chg
Sales	333.4	429.9	28.9	371.9	483.3	30.0
OP	44.3	41.3	(6.9)	54.0	52.3	(3.2)
OPM	13.3	9.6	(3.7)	14.5	10.8	(3.7)
EBT	48.7	42.9	(12.0)	59.0	54.8	(7.1)
NP	35.7	33.1	(7.4)	42.8	41.9	(2.1)

Note: Sales revision based on change in standards of sales recognition by K-IFRS 1115
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

- Outbound travel: Overseas departure of domestic residents
- Inbound travel: Domestic arrival of international travelers
- Hard Block: Tickets prepaid by airline companies to ensure that certain travel agencies pre-claim seat requirements for certain destinations

Balance sheet

(W bn)

FY-ending Dec.	2016A	2017A	2018F	2019F	2020F
Current assets	151	209	248	274	297
Cash & cash equivalent	58	53	63	70	75
Accounts & other receivables	39	45	55	61	67
Inventory	0	0	0	0	0
Non-current assets	59	130	152	167	180
Investment assets	22	16	20	21	23
Tangible assets	22	23	23	24	23
Intangible assets	6	3	3	3	2
Total assets	210	338	400	442	477
Current liabilities	103	142	185	199	211
Accounts & other payables	59	67	81	91	100
ST debt & bond	2	14	18	20	15
Current portion of LT debt	1	1	1	0	0
Non-current liabilities	5	33	30	29	18
Debentures	0	0	0	0	0
LT debt & financial liabilities	4	32	29	28	16
Total liabilities	108	175	216	228	229
Controlling interest	103	135	156	185	220
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Other Reserves	(29)	(19)	(19)	(19)	(19)
Retained earnings	98	115	136	165	200
Minority interest	(1)	28	28	28	28
Shareholders' equity	103	163	185	214	248

Cash flow

(W bn)

FY-ending Dec.	2016A	2017A	2018F	2019F	2020F
C/F from operating	32	38	59	45	58
Net profit	16	24	33	42	48
Depreciation	2	2	2	2	2
Amortization	1	1	0	0	0
Net incr. in W/C	12	12	25	2	8
Others	1	(1)	(1)	(1)	0
C/F from investing	(6)	(54)	(39)	(26)	(21)
CAPEX	(1)	(1)	(3)	(3)	(2)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	(8)	(50)	(2)	(1)	(0)
Net incr. in intangible assets	(1)	(0)	(0)	(0)	(0)
Others	4	(3)	(34)	(22)	(19)
C/F from financing	(12)	11	(10)	(12)	(31)
Incr. in equity	0	17	0	0	0
Incr. in debts	1	2	1	0	(17)
Dividends	(5)	(7)	(8)	(11)	(13)
Others	(8)	(1)	(3)	(1)	(1)
C/F from others	0	(1)	0	0	0
Increase in cash	14	(5)	10	6	5

Note: Based on K-IFRS (consolidated)

Income statement

(W bn)

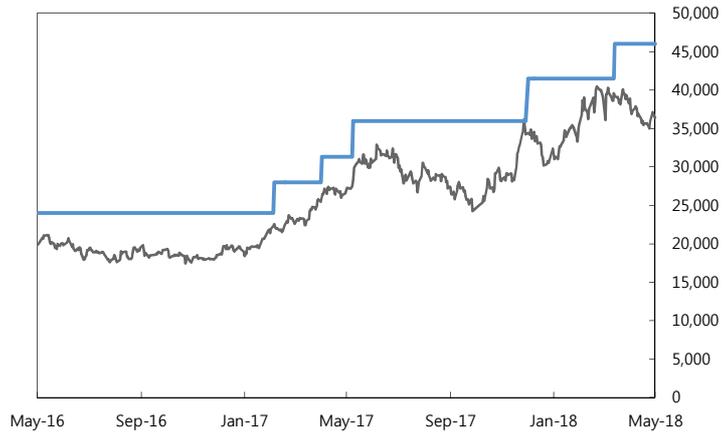
FY-ending Dec.	2016A	2017A	2018F	2019F	2020F
Sales	237	355	430	483	532
COGS	11	75	0	0	0
Gross profit	226	280	430	483	532
SG&A expense	206	248	389	431	471
Operating profit	20	32	41	52	60
Financial income	2	1	1	2	2
Interest income	2	1	1	2	2
Financial expense	0	1	1	1	1
Interest expense	0	0	1	1	1
Other non-operating profit	(1)	(3)	0	1	1
Gains (Losses) in associates, subsidiaries and JV	2	3	1	1	1
Earnings before tax	23	33	43	55	63
Income taxes	7	9	10	13	15
Net profit	16	24	33	42	48
Net profit of controlling interest	17	24	33	42	48
Other comprehensive profit	(0)	(0)	0	0	0
Total comprehensive profit	16	24	33	42	48
Total comprehensive profit of controlling interest	16	24	33	42	48
EBITDA	23	35	44	55	63

Key financial data

FY-ending Dec.	2016A	2017A	2018F	2019F	2020F
per share data (KRW)					
EPS	1,430	1,340	1,799	2,301	2,650
BPS	10,475	8,121	9,256	10,797	12,626
DPS	600	450	620	700	750
Growth (%)					
Sales growth	16.0	49.9	20.9	12.4	10.1
OP growth	22.3	59.6	28.5	26.7	15.6
NP growth	26.6	44.2	35.3	27.9	15.2
EPS growth	29.4	(6.3)	34.2	27.9	15.2
EBITDA growth	17.4	53.3	25.0	24.7	14.4
Profitability (%)					
OP margin	8.5	9.0	9.6	10.8	11.4
NP margin	7.1	6.8	7.6	8.7	9.1
EBITDA margin	9.7	9.9	10.2	11.3	11.8
ROA	8.1	8.8	8.9	9.9	10.5
ROE	16.5	20.3	22.5	24.5	23.8
Dividend yield	3.1	1.5	1.7	1.9	2.1
Dividend payout ratio	41.2	33.9	34.5	30.4	28.3
Stability					
Net debt (W bn)	(93)	(97)	(124)	(139)	(170)
Int.-bearing debt/equity (%)	7.2	29.1	25.2	22.4	12.3
Valuation (X)					
PE	13.5	22.8	20.3	15.8	13.8
PB	1.8	3.8	3.9	3.4	2.9
EV/EBITDA	10.5	13.9	13.0	10.2	8.4

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Modetour Network(080160)	02-05-16	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	-14.8	-2.5
	16-03-18	BUY	W46,000	-	-



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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
- 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 Mar 31, 2018)**

BUY	Hold	Underweight (Sell)
80.3%	19.2%	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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