

## Hotel/leisure



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Rating	<b>BUY (M)</b>
Target price	<b>W44,000 (M)</b>
Current price (May 2)	<b>W36,450</b>
Upside potential	<b>21%</b>

Market cap (Wbn)	689
Shares outstanding	18,900,000
Avg daily T/O (2M, Wbn)	6
Avg daily volume (2M, shrs)	160,460
52-week high (won)	40,450
52-week low (won)	24,250
Foreign ownership (%)	43.1
Major shareholders (%)	
Jong-Ung Woo and 14 others	16.1

### Stock performance

(%)	1M	3M	12M
Absolute	(4.7)	2.7	(8.5)
Relative	(5.1)	6.0	(34.2)
Abs (US\$)	(6.4)	3.0	(3.9)

## Momentum likely to recover in 2H18

### 1Q18 review: earnings miss consensus on higher parent ad expense

- Modetour Network posted 1Q18 consolidated sales of W109.8bn (+21% YoY), OP of W9.1bn (-17% YoY), and NP of W7.4bn (-8% YoY). OP missed consensus by about 20%. From 1Q18, the firm applied K-IFRS 1115. The biggest difference was that the firm had to include the value of "hard block" flight tickets in the sales and CoGS of package tour products, which includes a hard block ticket. This should make Modetour Network and Jau Tour's gross profit the same as their operating revenue. The change does not have any impact on OP. Parent gross profit came to W71.0bn (+10% YoY) and OP W10.5bn (-12% YoY). 1) The number of overseas group package tourists increased to W0.45mn (+7% YoY), while package tour ASP was flat YoY at W872,000. 2) Operating expense grew 15% YoY to W60.5bn. Ad expense rose 89% YoY to W7.0bn. The effect of TV commercials and TV product placements (PPL) done in 4Q17 lingered into 1Q18, while the firm executed its search ad and online ad budget from February. Online ads from February were part of efforts to cope with weak outbound tour demand amid the Pyeongchang Winter Olympics. Ad expense should stabilize down from 2Q18. Subsidiaries combined posted sales of W15.5bn (+60% YoY) and operating loss of -W1.4bn (RR YoY). Modetour REITs OP came to W500mn and Modetour Japan W300mn, while Jau Tour posted an operating loss of -W500mn, Mode Stay -W600mn, and Seoul Hotel and Tourism Vocational Training College -W600mn. 1) Group package tourists at Jau Tour grew 17% YoY to 62,000 people. SG&A at Jau grew 34% QoQ to W7.8bn on higher marketing expenses to cope with unfavorable market condition. 2) Mode Stay turned to loss QoQ on the opening of a new Staz Hotel in Ulsan in Mar 2018. 3) Modetour Japan (overseas branch), which became a consolidated subsidiary from 1Q18, posted sales of W800mn and OP of W300mn (OPM 41%). The consolidation of the Japanese subsidiary will be followed by others, as the parent plans to expand overseas business in 2018 and beyond. Modetour targets to grow its combined overseas OP from W1.0bn in 2018 to at least W4.0bn in 2019.

### Earnings momentum likely to recover in 2H18

- Earnings momentum for 2Q18 will likely be weak on soft tour demand in June (World Cup and regional elections) and base effect from long holidays in May last year. Yet, earnings momentum should revive in 2H18, given: 1) the 77% YoY growth in Chinese group package tour product sales in April; 2) pent-up demand likely to be released in 3Q18; and 3) a low base for 4Q18 at the parent. Also, efforts to expand overseas subsidiary operations are a positive, as Hanatour Japan, which has a similar business model to the one Modetour is just exploring, has already been proven to be a success.

### Quarterly earnings

(Wbn)	1Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	110	21.5	-	83	33.1
OP	9	-17.1	61.5	11	-19.5
Pre-tax net profit	10	-11.2	88.3	12	-17.2
Net profit, CI	7	-8.1	78.1	9	-15.9
OPM (%)	8.3	-6.6 %pt	+1.0 %pt	13.7	-5.4 %pt
NPM (%)	6.7	-4.2 %pt	+1.3 %pt	10.6	-3.9 %pt

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

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		237	291	447	504
OP		20	32	42	52
Net profit, CI		17	24	32	39
P/E (x)		21.6	26.0	21.6	17.7
P/B (x)		3.2	4.5	4.2	3.6
EV/EBITDA		11.7	12.3	13.5	11.0
ROE (%)		16.5	20.3	21.8	22.7

Note: TTB = turn to black, TTR = turn to red, RR = remain red  
Source: Yuanta Securities

Source: Yuanta Securities

## 1Q18 consolidated OP W9.1n (-17% YoY)

(Wbn)

	2016				2017				2018				Full-year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QP	2QE	3QE	4QE	2017	2018E	2019E
<b>Consolidated sales</b>	60	54	64	59	74	67	73	77	110	103	121	113	291	447	504
Parent	53	46	56	51	64	57	63	65	94	85	102	93	249	374	415
Subsidiaries	6	8	9	8	10	10	10	12	16	18	19	21	42	73	89
Modetour International	1	1	0	1	0	0	0	0	0	0	0	0	2	0	0
Jau Tour	3	3	4	4	6	5	6	6	11	11	12	12	23	46	58
Cruise International	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Modetour H&D	1	1	1	1	1	1	1	1	0	1	1	1	2	2	2
Mode Dev of Tourism	-	-	-	-	-	-	-	1	1	1	1	1	1	4	4
Modetour REITs	1	1	1	1	0	1	1	1	0	1	1	1	3	3	3
Seoul Hotel & Tourism Vocational College	2	3	3	3	3	3	3	4	3	3	3	4	12	13	15
Mode Stay	-	-	-	-	0	0	0	0	0	0	0	0	2	2	2
Danang Hotel	-	-	-	-	-	-	-	-	1	1	1	1	-	3	5
<b>Consolidated operating profit</b>	5	4	8	4	11	7	8	6	9	8	15	10	32	42	52
Parent	7	5	9	5	12	8	9	5	11	8	13	9	33	40	46
Subsidiaries	-2	-1	-1	-2	-1	-1	-1	1	-1	0	1	2	-1	2	6
Modetour International	0	0	0	0	0	0	0	0	0	0	0	0	0	-1	0
Jau Tour	-1	-1	0	-1	0	0	0	0	-1	0	1	1	0	1	2
Cruise International	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Modetour H&D	0	0	0	0	0	0	0	0	0	0	0	0	-1	0	0
Mode Dev of Tourism	-	-	-	-	-	-	-	0	1	1	1	1	0	2	2
Modetour REITs	-1	0	0	0	-1	0	0	0	-1	0	0	0	-1	-1	-1
Seoul Hotel & Tourism Vocational College	0	0	0	0	0	0	0	1	-1	0	0	0	0	0	1
Mode Stay	-	-	-	-	0	0	0	0	0	0	0	0	0	1	1
Danang Hotel	-	-	-	-	-	-	-	-	0	0	0	0	-	1	2
Operating margin (%)	8	7	13	6	15	11	11	7	8	8	12	9	11	9	10
Parent	12	10	16	11	19	14	14	7	11	9	13	9	13	11	11
Subsidiaries	-31	-14	-8	-19	-9	-5	-7	9	-9	2	7	9	-2	3	7
<b>Cons net profit, CI</b>	4	4	7	3	8	6	6	7	7	6	11	8	24	32	39
Net margin (%)	7	7	11	5	11	9	9	8	7	6	9	7	9	7	8
<b>Growth (% YoY)</b>															
Cons sales	18	9	25	12	24	24	13	30	48	53	66	47	23	54	13
Cons operating profit	-28	-29	150	123	155	101	-2	45	-17	8	80	88	59	31	24
Cons net profit	-31	-13	113	952	130	70	-7	127	-8	-2	72	19	52	18	22
<b>[Parent earnings assumption]</b>															
[Traveler indicator]															
Mode package tourists ('000)	360	300	340	350	420	330	350	400	450	380	420	460	1,500	1,720	1,910
(% YoY)	6	5	17	10	18	10	3	15	7	15	19	16	12	14	11
Package ASP (W'000)	859	846	894	793	872	917	939	877	872	885	948	806	899	876	859
(% YoY)	-2	-3	3	-8	2	9	5	11	0	-4	1	-8	6	-3	-2
Sales conversion rate (package)	14.3	15.0	15.8	14.9	15.1	15.7	15.6	15.3	15.4	15.6	15.7	15.0	15.4	15.4	15.5

Parent net revenue	53	46	56	51	64	57	63	65	71	64	76	70	249	281	311
Commission from air ticket sales	4	3	4	4	3	4	4	5	4	5	5	6	16	20	24
Commission from package tour sales	44	38	48	41	55	48	52	54	60	53	63	56	208	232	255
Other	5	5	4	6	6	6	7	7	7	6	9	7	25	29	32
Parent operating expense	47	42	47	45	52	49	54	61	61	56	63	61	216	241	266
Wage and bonus	15	13	14	14	16	15	16	17	17	17	17	17	64	67	72
Ad & PR	4	4	3	4	4	4	4	8	7	5	5	5	20	22	22
Commissions paid	23	19	24	21	27	24	27	28	29	28	34	31	107	122	139
Other	6	5	6	6	6	6	6	8	8	7	7	8	26	30	32
<b>Parent operating profit</b>	<b>7</b>	<b>5</b>	<b>9</b>	<b>5</b>	<b>12</b>	<b>8</b>	<b>9</b>	<b>5</b>	<b>11</b>	<b>8</b>	<b>13</b>	<b>9</b>	<b>33</b>	<b>40</b>	<b>46</b>
Operating margin (%)	12	10	16	11	19	14	14	7	15	12	17	12	13	14	58

Note: 1Q18 sales figures are based on new K-IFRS. 2017 figures are not changed. 1Q18 parent operating revenue breakdown and package sales conversion rate our estimates.  
Source: Yuanta Securities

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

**Statement of comprehensive income**

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Sales</b>	<b>237</b>	<b>291</b>	<b>447</b>	<b>504</b>	<b>552</b>
Cost of sales	11	11	118	128	138
Gross profit	226	280	329	376	414
SG&A	206	248	287	324	349
<b>Operating profit</b>	<b>20</b>	<b>32</b>	<b>42</b>	<b>52</b>	<b>65</b>
EBITDA	23	35	46	56	69
Non-op profit/loss	3	1	0	-1	-1
Forex gain/loss	1	-3	0	0	0
Net interest income	1	1	0	0	0
Equity-meth gain/loss	2	3	0	0	0
Other	-1	-1	0	-1	-1
Net prof before income tax	23	33	42	51	64
Income tax	7	9	10	12	15
Net profit from continuing ops	16	24	32	39	49
Net profit from discontinued ops	0	0	0	0	0
Net profit	16	24	32	39	49
<b>NP for controlling interest</b>	<b>17</b>	<b>24</b>	<b>32</b>	<b>39</b>	<b>48</b>
Total comprehensive income	16	24	31	38	48
Total comprehensive income, CI	16	24	31	38	48

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

**Statement of financial position**

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	<b>151</b>	<b>209</b>	<b>248</b>	<b>286</b>	<b>332</b>
Cash & cash equivalents	58	53	62	74	113
Accts rec & other	39	45	65	72	79
Inventory	0	0	0	0	0
Non-current assets	59	130	128	126	124
Tangible assets	22	23	21	20	18
Investment in affiliates	21	8	8	8	8
Other non-current	1	8	8	8	8
<b>Total assets</b>	<b>210</b>	<b>338</b>	<b>376</b>	<b>412</b>	<b>456</b>
Current liabilities	103	142	162	169	176
Accts payable & other	59	67	67	67	67
ST financial liabilities	0	14	34	41	48
Liquid LT liabilities	1	1	1	1	1
Non-current liabilities	5	33	33	33	33
LT financial liabilities	2	30	30	30	30
Debentures	0	0	0	0	0
<b>Total liabilities</b>	<b>108</b>	<b>175</b>	<b>195</b>	<b>202</b>	<b>210</b>
Equity, controlling interest	103	135	158	185	218
Paid-in capital	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	139	165	198
Equity, non-controlling interest	-1	28	22	25	29
<b>Total equity</b>	<b>103</b>	<b>163</b>	<b>180</b>	<b>209</b>	<b>247</b>
<b>Net debt</b>	<b>-93</b>	<b>-97</b>	<b>-85</b>	<b>-91</b>	<b>-123</b>
Total debt	7	47	68	75	82

**Cash flow statement**

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Operating cash flow</b>	<b>32</b>	<b>38</b>	<b>35</b>	<b>56</b>	<b>66</b>
Net profit	16	24	32	39	49
Depreciation & amortization	2	2	4	4	4
Forex gain/loss	-1	2	0	0	0
Affiliate invest gain/loss	-1	0	0	0	0
Inc (dec) in net working cap	12	12	1	16	16
Other	4	-3	-2	-2	-3
<b>Investing cash flow</b>	<b>-6</b>	<b>-54</b>	<b>-11</b>	<b>-11</b>	<b>-11</b>
Investment	7	-7	0	0	0
Inc in tangible assets	-1	-1	-3	-3	-3
Dec in tangible assets	0	0	0	0	0
Other	-12	-46	-8	-8	-8
<b>Financing cash flow</b>	<b>-12</b>	<b>11</b>	<b>12</b>	<b>-5</b>	<b>-8</b>
Inc (dec) in ST fin liab	0	0	20	7	7
Inc (dec) in LT fin liab	0	2	0	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-5	-7	-8	-12	-15
Other	-8	16	0	0	0
Other cash flow	0	-1	-28	-28	-8
<b>Inc (dec) in cash &amp; equivalents</b>	<b>14</b>	<b>-5</b>	<b>8</b>	<b>13</b>	<b>39</b>
Beginning cash & equivalents	45	58	53	62	74
Ending cash & equivalents	58	53	62	74	113
<b>NOPLAT</b>	<b>20</b>	<b>32</b>	<b>42</b>	<b>52</b>	<b>65</b>
<b>FCF</b>	<b>27</b>	<b>38</b>	<b>35</b>	<b>57</b>	<b>67</b>

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

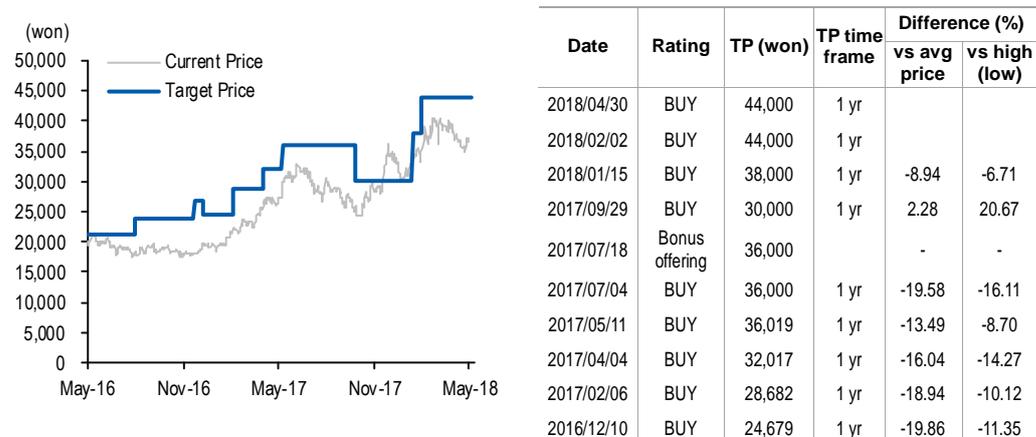
**Valuation**

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	1,330	1,279	1,687	2,062	2,560
BPS (won)	8,976	7,410	8,701	10,153	11,971
EBITDA/shr (won)	1,820	1,860	2,458	2,986	3,644
SPS (won)	18,816	15,394	23,653	26,665	29,227
DPS (won)	600	450	680	840	950
<b>P/E (x)</b>	<b>21.6</b>	<b>26.0</b>	<b>21.6</b>	<b>17.7</b>	<b>14.2</b>
<b>P/B (x)</b>	<b>3.2</b>	<b>4.5</b>	<b>4.2</b>	<b>3.6</b>	<b>3.0</b>
<b>EV/EBITDA (x)</b>	<b>11.7</b>	<b>12.3</b>	<b>13.5</b>	<b>11.0</b>	<b>8.6</b>
<b>P/S (x)</b>	<b>1.5</b>	<b>2.2</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>

**Key financial data**

FY ends Dec	2016A	2017A	2018E	2019E	2020E
<b>Sales (% YoY)</b>	<b>16.0</b>	<b>22.7</b>	<b>53.6</b>	<b>12.7</b>	<b>9.6</b>
<b>Operating profit (%YoY)</b>	<b>22.3</b>	<b>59.6</b>	<b>31.2</b>	<b>23.7</b>	<b>24.5</b>
<b>Net profit, CI (%YoY)</b>	<b>26.6</b>	<b>44.2</b>	<b>31.9</b>	<b>22.2</b>	<b>24.1</b>
Gross margin (%)	95.3	96.2	73.7	74.6	75.0
<b>Operating margin (%)</b>	<b>8.5</b>	<b>11.0</b>	<b>9.4</b>	<b>10.3</b>	<b>11.8</b>
Net margin, CI (%)	7.1	8.3	7.1	7.7	8.8
EBITDA margin (%)	9.7	12.1	10.4	11.2	12.5
ROIC (%)	-85.8	-80.3	-141.3	1,103.6	277.3
ROA (%)	8.5	8.8	8.9	9.9	11.1
<b>ROE (%)</b>	<b>16.5</b>	<b>20.3</b>	<b>21.8</b>	<b>22.7</b>	<b>24.0</b>
Debt-to-equity (%)	104.9	107.5	108.3	96.8	84.9
Net debt-to-equity (%)	-90.0	-72.0	-53.9	-49.3	-56.5
OP/financing cost (x)	46.2	66.1	21.2	23.3	26.5

### Modetour Network (080160 KS) ratings and target price history



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	1.6
BUY	86.5
HOLD	11.9
SELL	0.0
Total	100.0

Note: As of Apr 30

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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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