South Korea

ADD *(no change)*

Consensus ratings*:	Buy 15 Hold 1 Sell 0
Current price:	W33,800
Target price:	W43,000
Previous target:	W48,000
Up/downside:	27.2%
CIMB / Consensus:	-0.3%
Reuters:	080160.KS
Bloomberg:	080160 KS
Market cap:	US$594.9m
	W638,820m
Average daily turnover:	US$4.63m
	W4,943m
Current shares o/s:	18.90m
Free float:	79.4%

*Source: Bloomberg

Key changes in this note

- FY18/19F EPS decreased -43%/-39% (reflects bonus issue).

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-7	-10.1	13.1
Relative (%)	-7	-11.6	6

Major shareholders	% held
Woo, Chong-Woong, etc	16.1
Ameriprise Fin Grp	9.3
J.P. Morgan Chase & Co.	8.1

Modetour Network

Structural growth safeguarding slowdown

- We resume coverage on Modetour Network – recap growth drivers and trends looming Korea's outbound travel; update on 1Q18 earnings and yearly outlook.
- Lacklustre outbound growth in 1H18; expect 13% hoh growth in 2H18F. We forecast 2H18F OP to rise 40% hoh and 75% yoy; full-year OP growth of 28% yoy.
- Growth in outbound tourism industry is resilient. We estimate FY18F outbound growth at 15.2% yoy. Structural growth story is intact for local outbound travel agencies.
- We resume coverage with Add and TP of W43k, on 22x FY18/19F EPS (9-yr average forward P/E). The recent share price correction is short-sighted; buy the dip.

1Q18: OP slipped due to longer-than-expected TV ads

Modetour posted 1Q18 consolidated sales of W109.8bn (+21.5% yoy) and OP of W9.1bn (-17.1%); revenue was in line with consensus but OP missed by 20% on the back of higher-than-expected advertisement expenses (+90% yoy, from longer TV ads). OPM and NPM stood at 8.3% (-3.9% pts yoy) and 6.7% (-2.3% pts yoy), respectively, missing consensus estimates by 5% pts and 4% pts. Overall passenger number grew 7.7% yoy (package +7.2%, ticket +8.2%), while blended ASP grew 0.5% yoy in 1Q18.

1H18F: eventful half but lacklustre earnings

On the back of Pyeongchang Winter Olympics, Feb outbound growth slowed down to 4% yoy, vs. 22% in Jan and 16% in Mar. As noted in the trough in reservation rate trend for May-Jul, outbound number in Jun will see weakened yoy growth momentum, on the back of local elections and FIFA world cup in Jun. Though the quarterly earnings growth may slow down, we believe there will be no impact on full-year basis. We expect steeper growth in 2H18, following the two events.

2H18F: momentum to pick up

We expect the slacking growth in 2Q18 outbound will lead to pent-up demand in 2H18F, and show normalised growth trajectory on a full-year basis. We expect 2H18F to see outbound tourists of 16m (17% growth yoy, 13% growth hoh). Along with normalised opex, we estimate 2H18F OP will grow by 40% hoh and 75% yoy, leading to full-year growth of +28% yoy, proving that 1H18 was merely a blip.

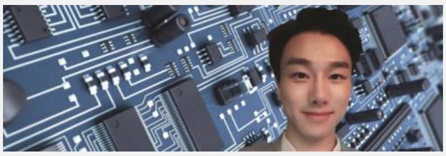
Our growth thesis intact

The number of outbound tourists rose 14% yoy in 1Q18, despite the unfavourable external factors, while the number of flights from domestic airports rose by 9.6% yoy. Structurally, the growth has been bolstered by upscaling of standard of living from GDP growth, but accelerated by 1) increase in spending on outbound travel, 2) development of related infrastructure (i.e. increase in number of airports and aircraft), and 3) favourable shift in consumers' perception of packaged tours.

An attractive entry point

We resume coverage with Add and a lower TP of W43K, based on 22x FY18-19F EPS average, its 9-year historical average forward P/E (period of consecutive topline growth), implying 12-month forward PEG of 0.4. The share price is down 16% in the last 3 months, due to concerns over outbound slowdown and earnings weakness in 1H18. We believe the correction is overdone given the structural growth and margin recovery ahead. Downside risks are 1) delays in margin recovery and 2) market share deterioration.

Analyst(s)



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Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (Wb)	237.1	290.9	441.9	517.3	604.5
Operating EBITDA (Wb)	22.79	35.02	44.77	54.32	70.43
Net Profit (Wb)	16.76	24.08	33.09	40.39	52.05
Normalised EPS (W)	887	1,274	1,751	2,137	2,754
Normalised EPS Growth	26.4%	43.6%	37.4%	22.1%	28.8%
FD Normalised P/E (x)	38.10	26.53	19.31	15.82	12.27
DPS (W)	381.5	452.1	750.0	900.0	900.0
Dividend Yield	1.13%	1.34%	2.22%	2.66%	2.66%
EV/EBITDA (x)	23.31	15.68	10.71	7.94	5.99
P/FCFE (x)	24.29	NA	11.24	15.55	11.77
Net Gearing	(104%)	(72%)	(100%)	(110%)	(122%)
P/BV (x)	6.18	4.74	4.00	3.43	3.69
ROE	16.5%	20.2%	22.5%	23.3%	28.9%
% Change In Normalised EPS Estimates			(42.8%)	(39.4%)	
Normalised EPS/consensus EPS (x)			1.03	1.04	1.18

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Structural growth safeguarding slowdown

Earnings forecasts & assumptions

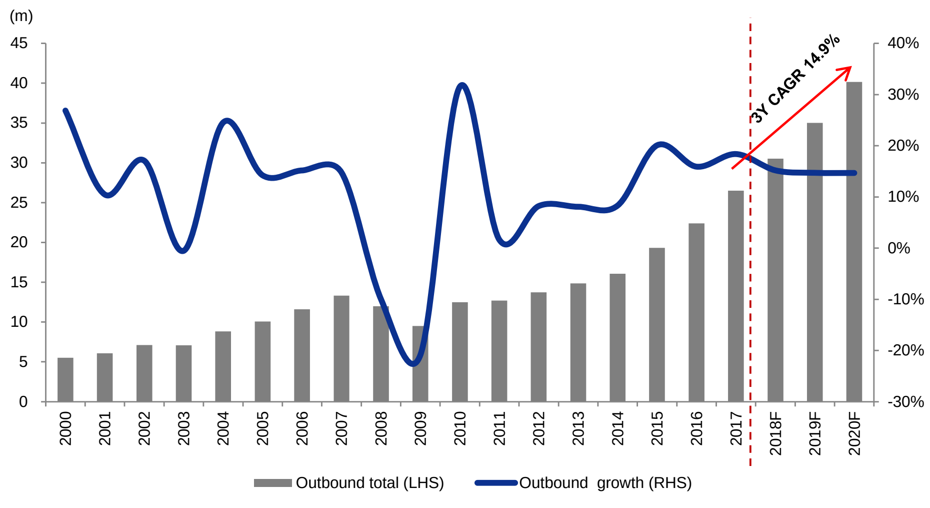
1Q18 topline was in line with Bloomberg consensus estimates; OP missed by 20%. While Jan and Mar package volume increased by 20% and 10% yoy, respectively, Feb saw an 8% yoy decline. ASP was flat on a yoy basis during 1Q18. In order to make up for the expected weakness in outbound travel numbers due to the PyeongChang Olympics, travel agencies, including Modetour, incurred atypical amounts of advertisement expenses during 1Q18. Modetour's advertisement expenses increased by 90% yoy in 1Q18, leading to a 15% yoy increase in overall opex. Modetour extended TV ads into 1Q18 (commercials, product placement) which were initiated in 4Q17, and invested in online ads (inc. key word search).

Given the FIFA World Cup and local elections in Korea in Jun, we expect softer outbound volume growth on a yoy basis in 2Q18F. However, we believe normalised opex should prevent any further margin erosion on a yoy basis.

We expect earnings momentum to pick up in 2H18F, as the softer outbound demand volume is deferred to 2H18F, and we believe the pent-up demand will lead to normalised overall earnings for the full year (FY18F). We expect 2H18F to see outbound tourists of 16m (+17% yoy, +13% hoh). Along with normalised opex, we estimate 2H18F OP will grow by 40% hoh and 75% yoy, leading to full-year OP growth of +28% yoy.

During FY18-20F, given the shift in outbound travel trend towards 'more, shorter, and cheaper' (please refer to outbound trend section), we expect a gradual decline in blended ASP by 1% p.a. over FY18-20F. However, we expect gross revenue to still see strong growth of 13% p.a., bolstered by resilient volume growth.

Figure 1: Outbound total vs. outbound growth



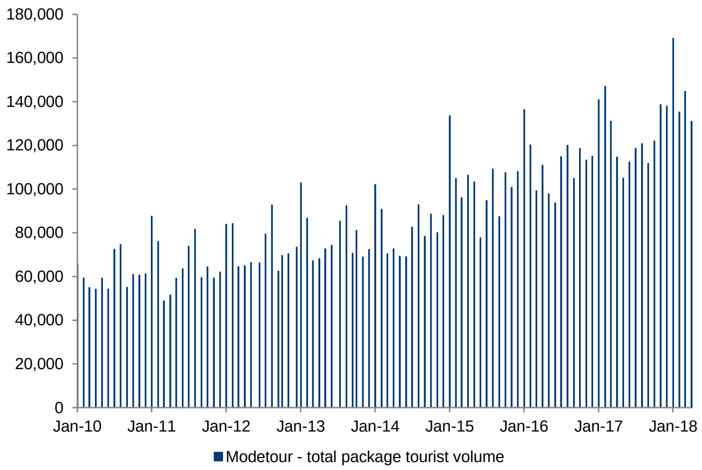
SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 2: Key earnings assumptions

('000)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18F	3Q18F	4Q18F	2017	2018F	2019F
Total outbound	**6,515**	**6,106**	**7,011**	**6,864**	**7,430**	**6,862**	**8,238**	**7,991**	**26,496**	**30,521**	**35,011**
Market share (Total market)	*10.9%*	*10.3%*	*9.9%*	*10.2%*	*10.3%*	*10.8%*	*10.4%*	*10.7%*	*10.3%*	*10.5%*	*10.9%*
Travels by Mode	**709**	**630**	**695**	**698**	**764**	**743**	**858**	**852**	**2,733**	**3,217**	**3,830**
Package	420	333	352	389	450	395	438	477	1,494	1,760	2,089
Ticketing	289	298	343	308	314	348	420	375	1,239	1,457	1,742
Sales (W bn)	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**	**2Q18F**	**3Q18F**	**4Q18F**	**2017**	**2018F**	**2019F**
Total sales	**74.0**	**67.3**	**72.7**	**77.0**	**109.8**	**99.1**	**114.7**	**118.3**	**290.9**	**441.9**	**517.3**
Mode Tour (Parent)	**64.3**	**57.3**	**62.5**	**65.2**	**94.3**	**82.0**	**95.9**	**98.6**	**249.4**	**370.9**	**433.1**
Ticket	3.4	3.7	3.7	4.8	5.0	6.0	6.7	7.8	15.7	25.5	30.6
Travel	55.1	48.0	51.7	53.5	77.2	69.9	81.4	83.3	208.3	311.8	365.5
Other services	5.8	5.6	7.1	6.9	12.1	6.1	7.8	7.6	25.4	33.6	37.0
Modestay	2.7	2.6	2.9	3.5	2.8	3.4	3.9	4.3	11.7	14.4	17.0
Jayoo Tour	5.5	5.4	5.8	6.2	11.1	11.0	11.8	12.2	22.9	46.1	53.4
Others/Adjustment	1.5	2.0	1.6	2.0	1.6	2.6	3.1	3.2	7.0	10.4	13.9
Operating profit (W bn)	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**	**2Q18F**	**3Q18F**	**4Q18F**	**2017**	**2018F**	**2019F**
Total OP	**11.0**	**7.3**	**8.1**	**5.5**	**9.1**	**8.0**	**13.2**	**10.8**	**32.0**	**41.1**	**51.2**
Mode Tour (Parent)	11.9	7.9	8.8	4.5	10.5	7.7	12.6	9.0	33.1	39.9	48.1
ModeStay	-0.2	-0.3	0.1	0.7	-0.6	-0.2	0.1	0.1	0.3	-0.6	-0.7
Jayoo Tour	0.2	-0.2	-0.3	0.3	-0.5	-0.2	-0.4	0.9	0.1	-0.1	0.9
Subsidiaries/Adjustments	-0.9	-0.1	-0.5	0.0	-0.3	0.6	0.8	0.8	-1.5	1.9	3.0
OPM (%)	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**	**2Q18F**	**3Q18F**	**4Q18F**	**2017**	**2018F**	**2019F**
Consolidated	**14.9%**	**10.9%**	**11.2%**	**7.2%**	**8.3%**	**8.1%**	**11.5%**	**9.1%**	**11.0%**	**9.3%**	**9.9%**
Parent	18.6%	13.7%	14.1%	6.8%	11.2%	9.4%	13.2%	9.2%	13.3%	10.8%	11.1%
Profit breakdown (W bn)	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**	**2Q18F**	**3Q18F**	**4Q18F**	**2017**	**2018F**	**2019F**
Operating profit	11.0	7.3	8.1	5.5	9.1	8.0	13.2	10.8	32.0	41.1	51.2
Net profit	8.1	6.1	5.9	4.0	7.4	6.6	10.4	8.7	24.1	33.1	40.4
EPS (W)	428	323	310	214	393	350	548	458	1,274	1,751	2,137
Margins (%)	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**	**2Q18F**	**3Q18F**	**4Q18F**	**2017**	**2018F**	**2019F**
Operating margin	14.9%	10.9%	11.2%	7.2%	8.3%	8.1%	11.5%	9.1%	11.0%	9.3%	9.9%
Net margin	10.9%	9.1%	8.1%	5.2%	6.8%	6.7%	9.0%	7.3%	8.3%	7.5%	7.8%

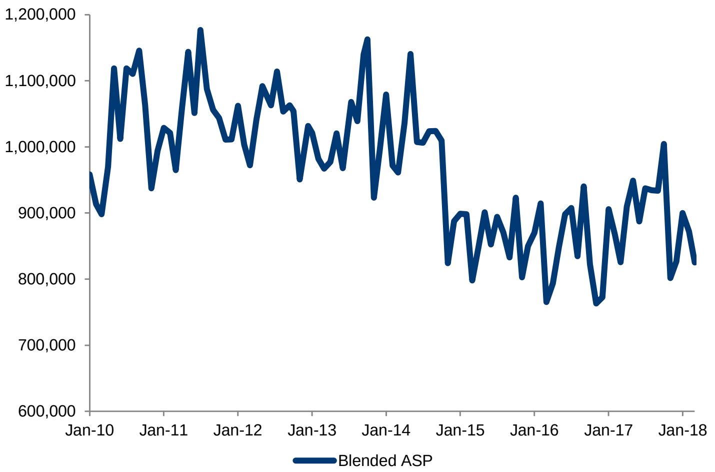
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 3: Modetour – total package tourist volume



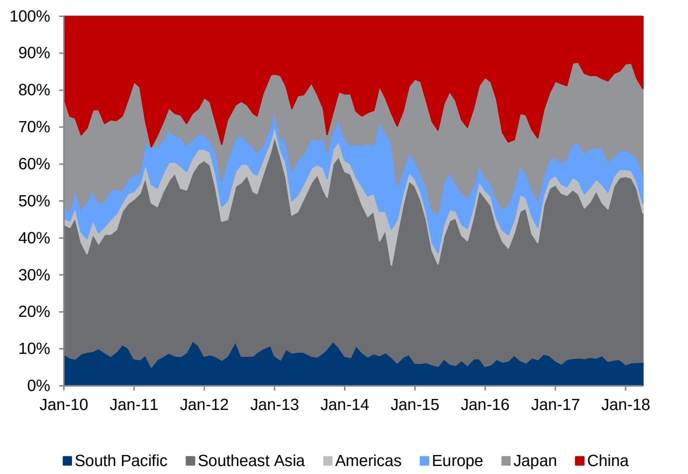
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Modetour – blended package tour ASP



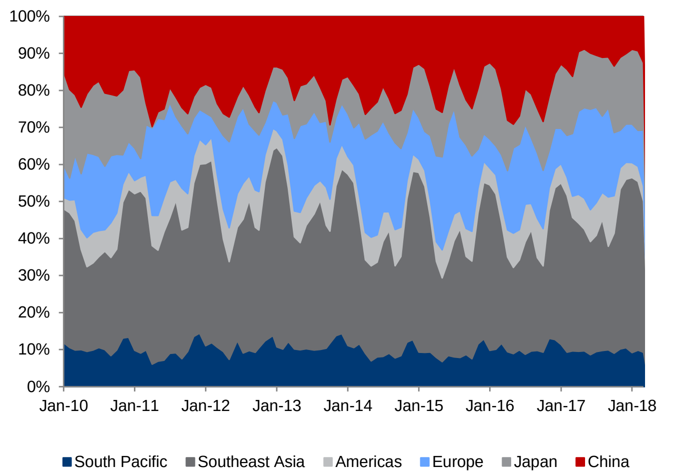
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Modetour – outbound package tourists volume contribution by destination



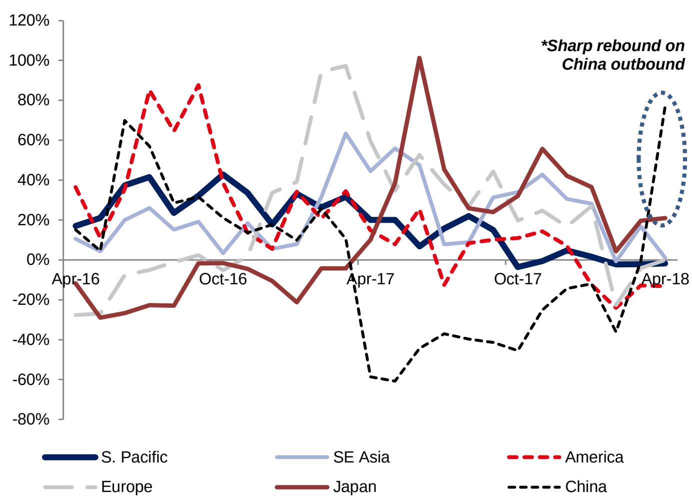
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: Modetour – outbound package tourists revenue contribution by destination



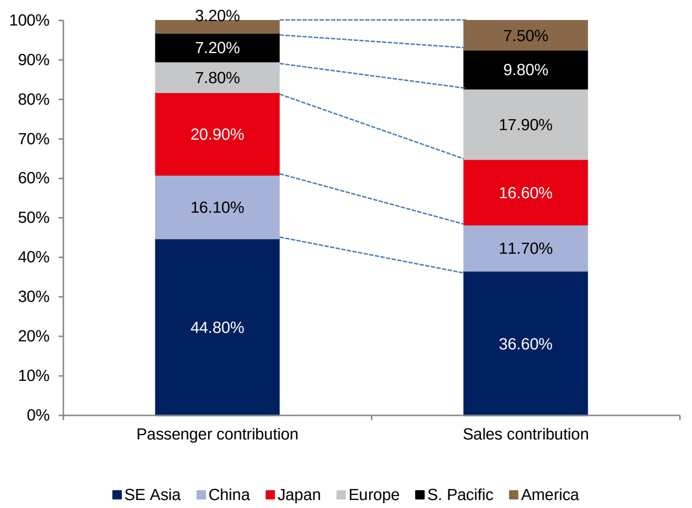
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Modetour's monthly outbound volume growth yoy by destination



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: Modetour passenger & sales contribution by destination as of FY17



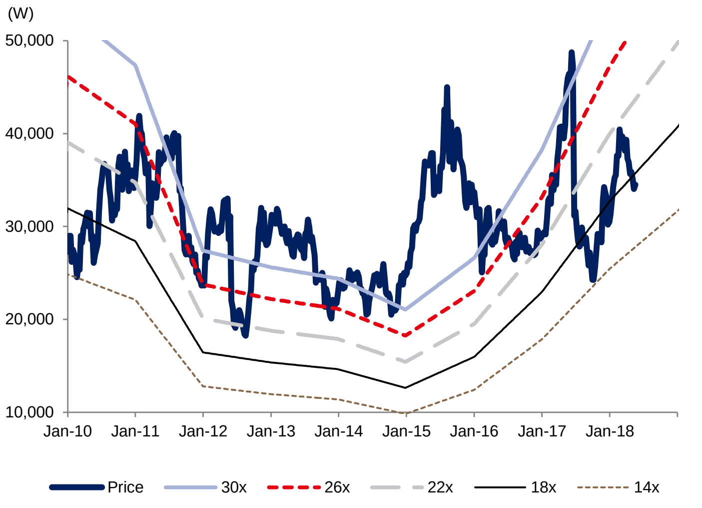
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: Sector/Peer comparison

Company	Ticker	Recom.	Price	TP	Upside	Mkt cap	2-year EPS	P/E (x)		P/BV (x)		ROE (%)		EV/EBITDA (x)		Div yield (%)	
	(BBG)		(Local curr)	(Local curr)	(%)	(US $mn)	CAGR (%)	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F
Modetour Network	**080160 KS**	**ADD**	**33,800**	**43,000**	**27.2%**	**591**	**29.5**	**19.3**	**15.8**	**4.0**	**3.4**	**22.5**	**23.3**	**10.7**	**7.9**	**2.2**	**2.7**
Hana Tour Service	039130 KS	ADD	104,000	91,000	-12.5%	1,118	24.4	28.5	24.3	5.0	4.5	18.7	19.6	11.9	9.6	1.9	2.4
Hotel Shilla	008770 KS	REDUCE	121,500	36,000	-70.4%	4,414	nm	45.2	nm	6.0	nm	14.1	nm	22.5	nm	0.5	nm
Ctrip.com	CTRP US	NR	42.9	na	na	23,368	30.4	38.5	25.5	1.8	1.7	4.0	5.6	32.0	17.5	0.0	0.0
Interpark INT	108790 KS	NR	7,740.0	na	na	237	16.1	40.8	18.2	1.5	1.4	3.7	8.1	7.2	5.2	1.9	2.3
Expedia	EXPE US	NR	114	na	na	17,117	13.6	22.6	19.1	3.6	3.0	13.2	15.4	10.2	8.6	1.1	1.1
Total average (ex. ModeTour)							**21.0**	**33.0**	**20.6**	**3.0**	**2.1**	**8.7**	**9.0**	**22.5**	**12.3**	**0.5**	**0.5**

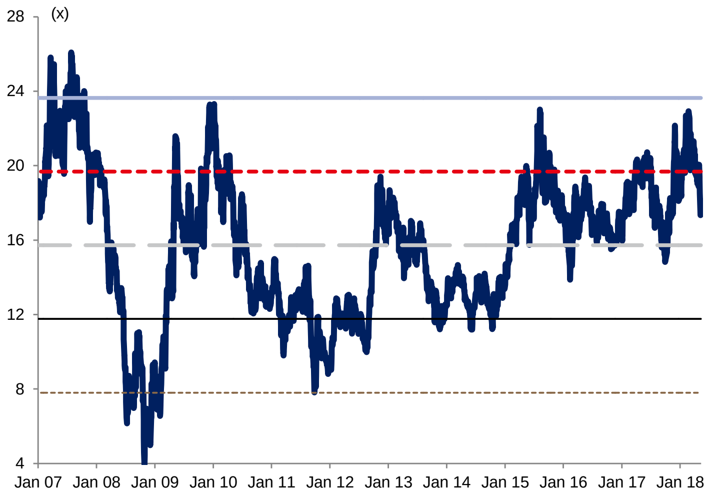
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: ModeTour – 12M forward P/E band



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: ModeTour – 12M forward Bloomberg consensus P/E trends

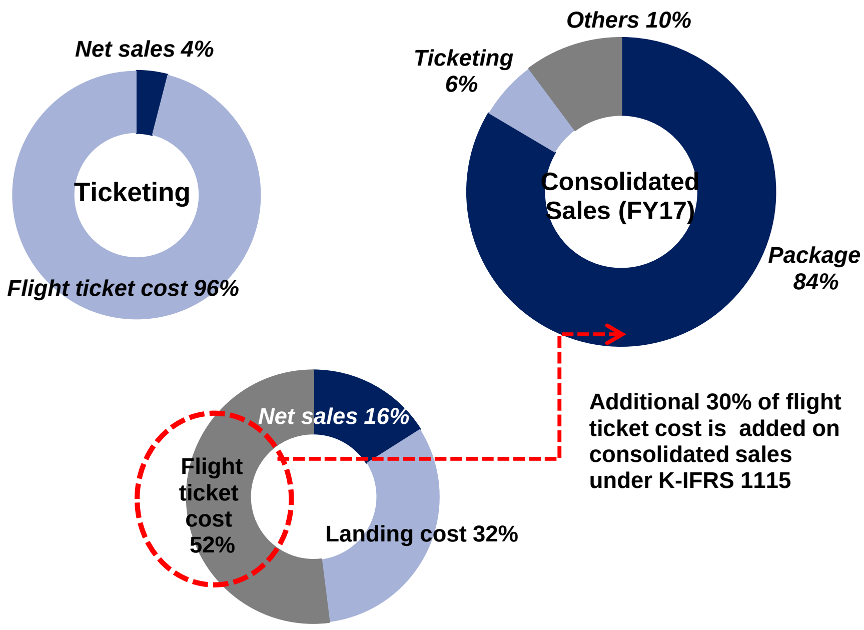


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

K-IFRS 1115

1Q18 marked the adoption of K-IFRS1115 – the difference is the recognition of 'hard block' flight tickets. 30% of the flight ticket cost, the so called 'hard block' tickets, is now recognised in revenue as well as COGS. Accordingly, Modetour on parent basis and Jayoo tour will see inflated sales and COGS, but no impact on OP and NP.

Figure 12: Adoption of K-IFRS 1115



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Outbound industry

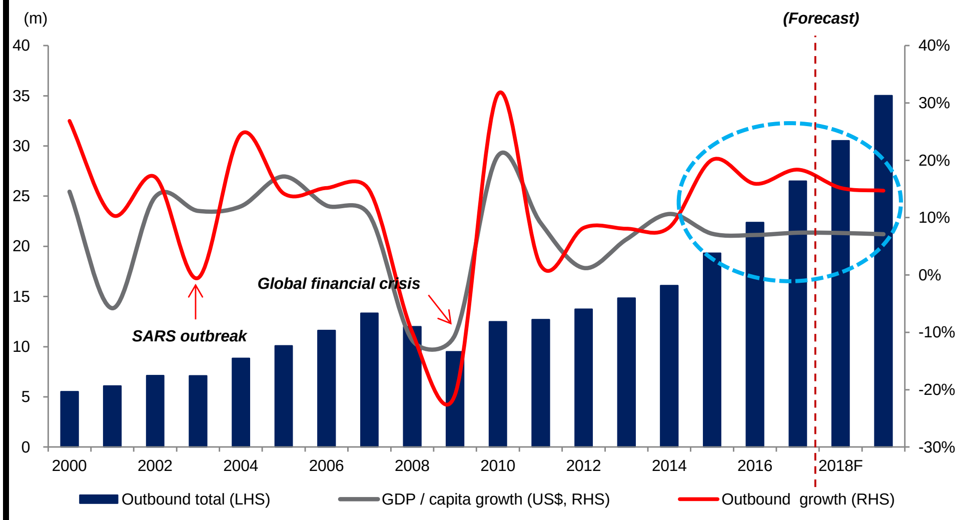
Outbound travel increased by 14% p.a. over CY12-17, reaching a total of 26.5m in 2017. What has largely driven the rapid growth in the outbound travel industry has been: 1) an increase in supply of low-cost carriers (LCC); 2) a shift in sociocultural values – an increase in the number of families traveling overseas; 3) demographic change – retirement of baby boomers; and 4) a positive shift in the perception of packaged tours. In our view, the number of outbound travellers will register a CAGR of 15% over FY17-20F, and surpass the 30m mark in 2018.

Growth drivers

We believe the growth in GDP per capita has been the most important driver for the demand for outbound travel, in general. However, the spread between outbound growth and GDP/capita growth has been widening for the past three years, compared to the historical average. The accumulated spread between travel expenditure vs. domestic consumption has been increasing – the spending propensity or 'willingness to pay' for outbound travel has increased. While the sustained appreciation of the Won has played a role recently, we believe it only plays a limited role, given the volatility.

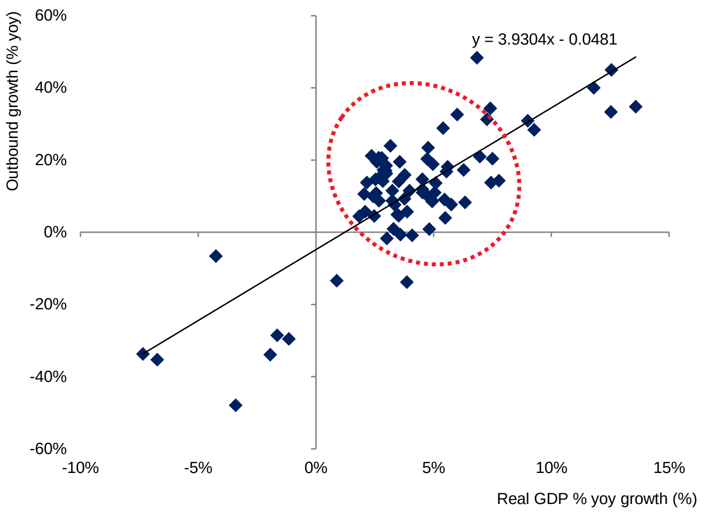
GDP growth bolsters the underlying demand of outbound traveling; however, in widening the spread with outbound growth, the aforementioned four factors have contributed meaningfully. In our view, travel demand is inelastic in the long run as the external variables – i.e. retaliation from China against the deployment of the Terminal High Altitude Area Defense (THAAD) system, North Korea's provocations – eventually fade over time.

Figure 13: Annual outbound vs. yoy outbound growth & GDP/capita growth



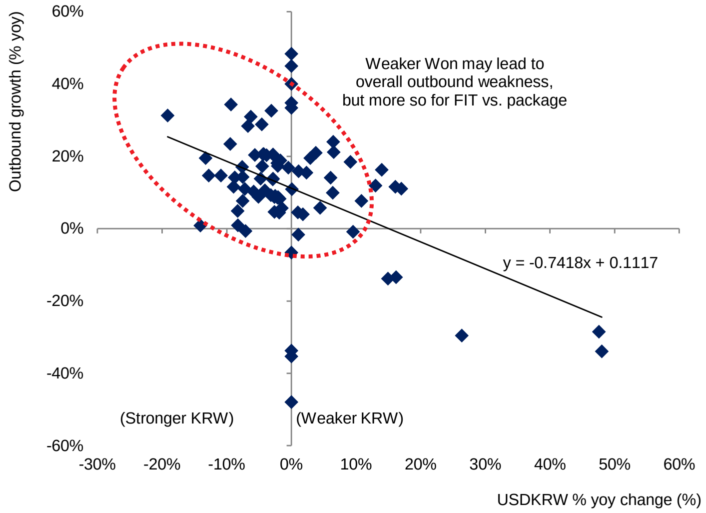
SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 14: Quarterly outbound growth vs. real GDP growth



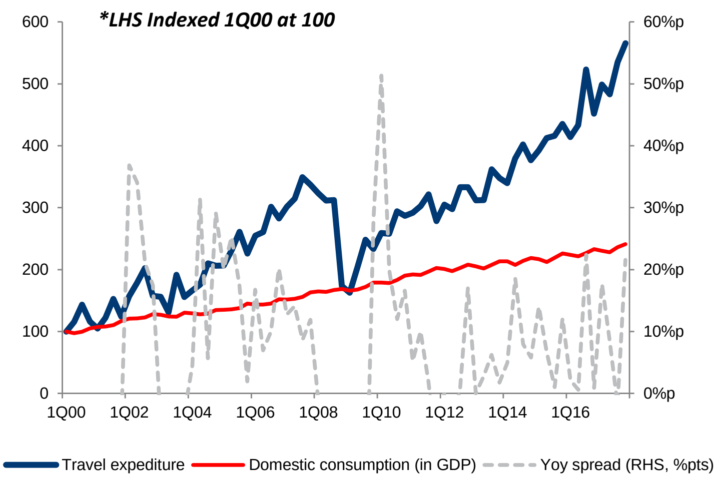
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 15: Quarterly outbound growth vs. US$/W yoy change



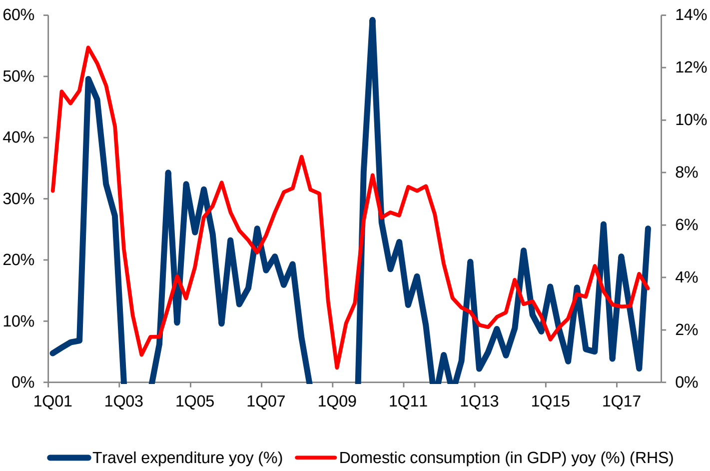
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 16: Domestic travel expenditure & domestic total consumption vs. yoy growth spread



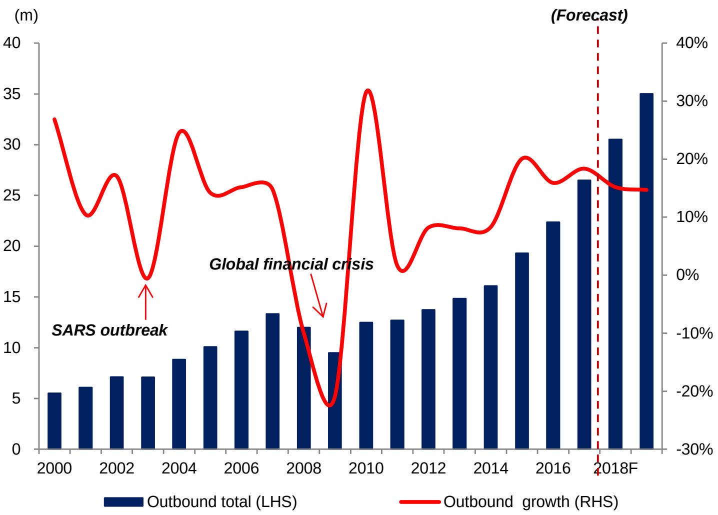
SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 17: Domestic travel expenditure yoy growth & domestic total consumption yoy growth



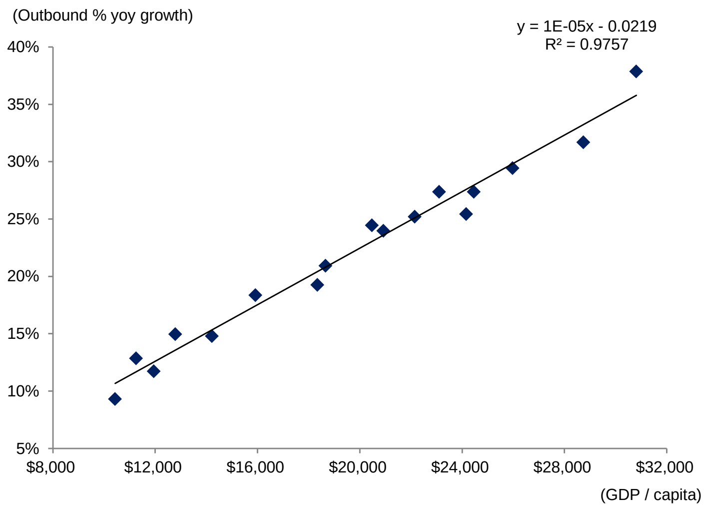
SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 18: Outbound total & GDP per capital/outbound growth



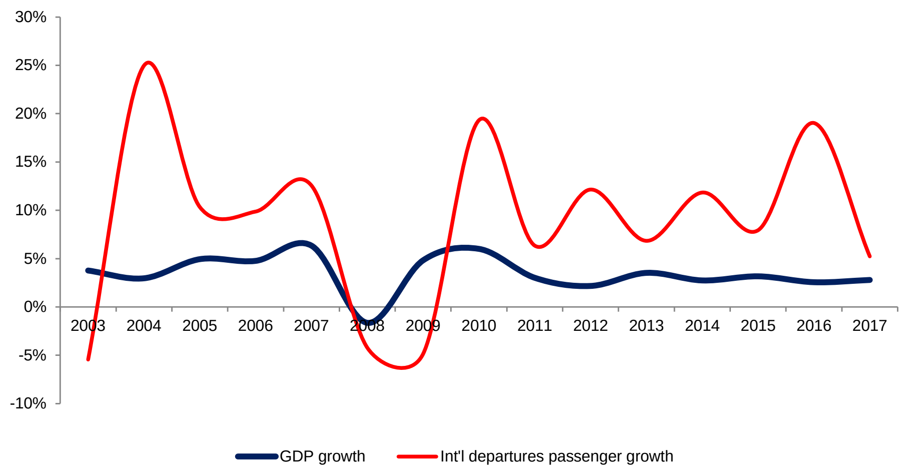
SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 19: GDP per capita vs. outbound % yoy growth



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 20: Outbound industry is growing ahead of GDP growth



SOURCES: CGS-CIMB RESEARCH, KOSIS

Affordable supply from LCC driving demand

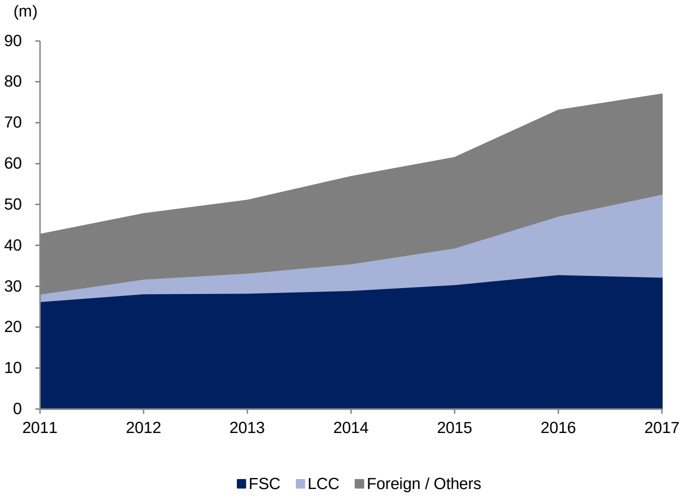
The number of local low-cost airlines operating as of 1Q18 stood at 7 (Jeju Air, Jin Air, Air Busan, Tway, Estar, Air Seoul, Air Pohang). Potentially, 4 other LCCs (K Air, Fly YangYang, Air Daegu, Nambu Air) are to be added to the list upon regulatory approval. Major LCCs in Korea have announced plans to further increase flight capacity during 2018F (+15-20%), to meet the surging demand for outbound travel.

Total passengers on LCCs on international flights increased from 1.8m in 2011 to 20.3m in 2017, increasing the market share from 4% in 2011 to 26% in 2017. The number of LCC passengers registered a CAGR of 49% over FY11-17, while the total number of outbound (through air) passengers saw a 10% CAGR over the same period. Initially, LCCs provided limited number of international destinations, but they have been aggressively expanding new routes not only to neighbouring countries, but also to other parts of Asia.

LCCs have also added international flights departing from regional airports, revitalising the outbound demand in non-Gyeongi provinces. About 42% of Korea's population lives in Gyeongi province (inc. Seoul), but nearly 90% of international flights originated from Incheon and Gimpo Int'l Airport (airports in Gyeongi province) in 2017. This, in turn, means more than half of Korea's population had to travel to Gyeongi Area, in order to fly overseas. As such, LCCs have been targeting the unmet demand from non-Gyeongi residents. As a result, total international passengers departing from regional airports (non-Gyeongi) increased from 2.0m in 2010 to 6.0m in 2017.

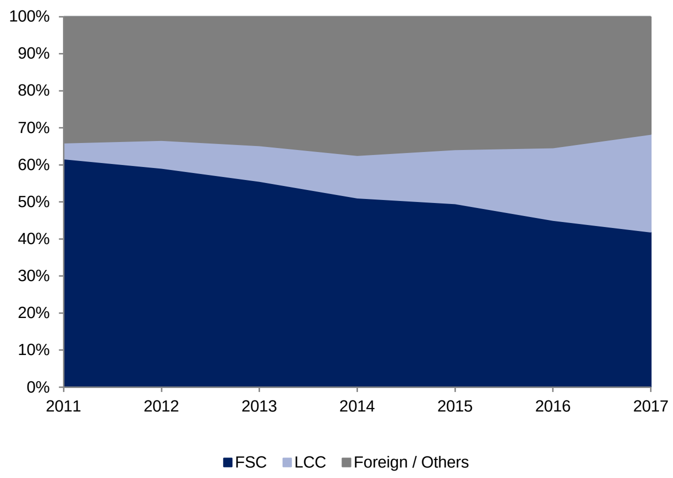
In our view, the pent-up demand that was pushed back due to physical and psychological obstacles is gradually being released as LCCs offer supply at a reasonable price, and eliminate the inconvenience of traveling to Gyeongi province to travel abroad. LCCs also played a role in expanding the supply base and broadening the selection of available destinations for consumers, and creating new demand, by providing exclusive destinations. Structurally, we believe the greater supply from LCCs is leading to a virtuous cycle of rising demand.

Figure 21: FSC vs. LCC outbound passenger



SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

Figure 22: FSC vs. LCC outbound passenger contribution



SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

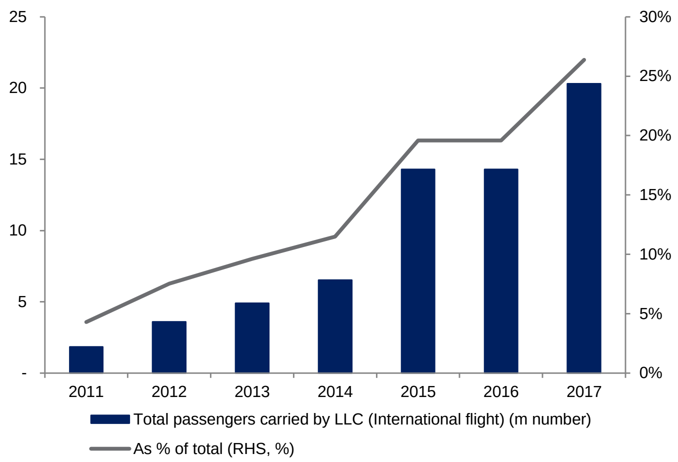
Figure 23: FSC vs. LCC

(W, one way)	To*		
	Tokyo	Guam	Cebu
Korean Air	354,700	441,900	408,500
LCC* average	130,750	184,250	131,067
Relative price of LCC	37%	42%	32%

**based on may 10, 2018*
**Including JinAir, AirSeoul, JejuAir*

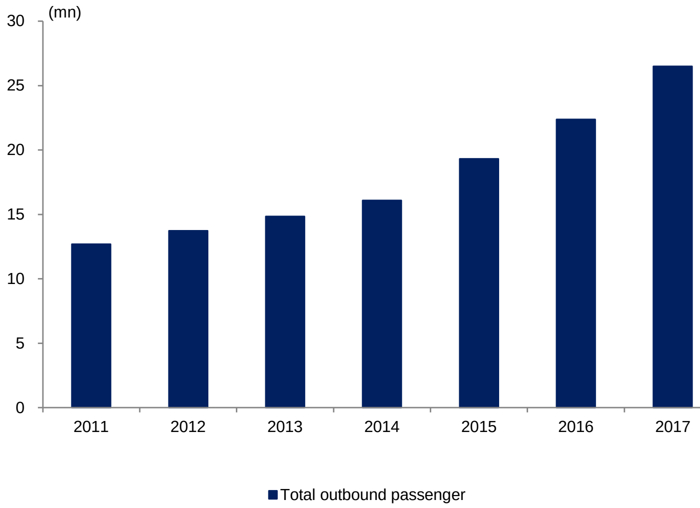
SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

Figure 24: LCC – outbound passengers carried & market share



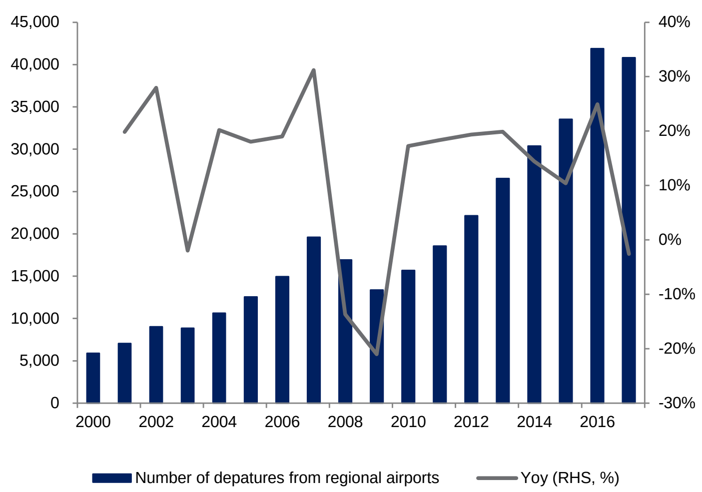
SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

Figure 25: Total outbound passengers



SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

Figure 26: International departures from regional airports



SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

Figure 27: International passengers from regional airports

SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

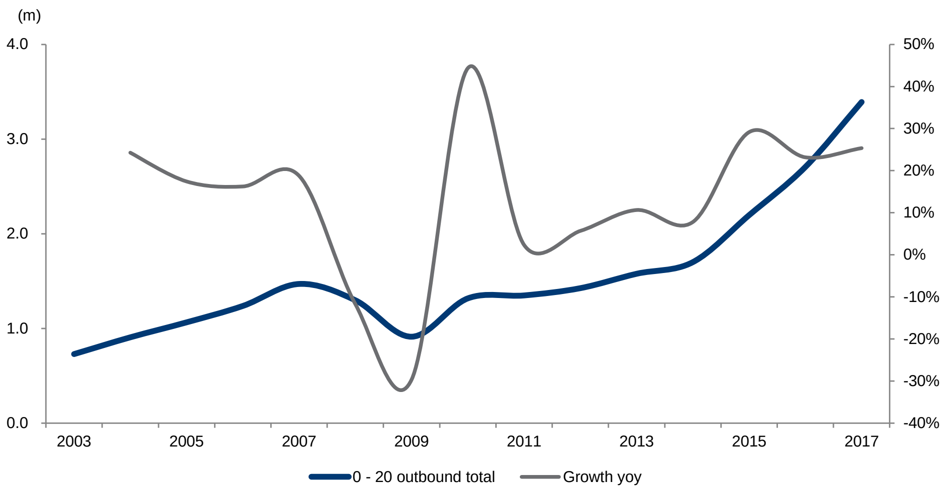
Shift in sociocultural values

We note a major shift in sociocultural values in the Korean society – increasing number of families traveling overseas as people try to spend more time together as a family, bolstering overall demand across generations.

The number of families traveling abroad has increased, underpinning the growth across all age groups. This is largely stemmed from the paradigm shift in sociocultural value in the local society, in our view. Spending time together with family and enjoying leisure activities together have increasingly become a priority.

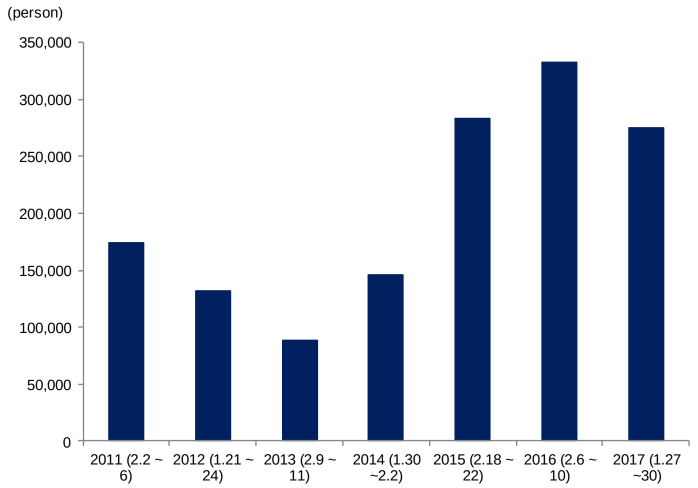
The traditional national holidays (Lunar New Year, Chuseok) have become less important than in the past, when family members used to catch up with relatives, indulge in traditional Korean food, and visit ancestors' graves. As the latest trend, many are opting to travel overseas, and perceive the holidays as a vacation. In the tourism industry, the two holidays are now considered as the peak holiday seasons. During Chuseok holidays in 2017, 77,000 people booked for overseas travel through Hanatour, +41% growth yoy.

Figure 28: Yearly outbound trend of population aged 0-20



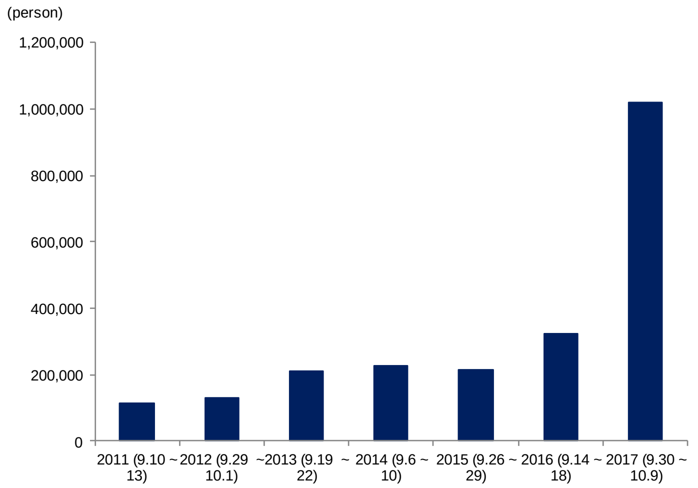
SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 29: Outbound travellers during Lunar New Year holidays



SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 30: Outbound travellers during Chuseok holidays



SOURCES: CGS-CIMB RESEARCH, KOSIS

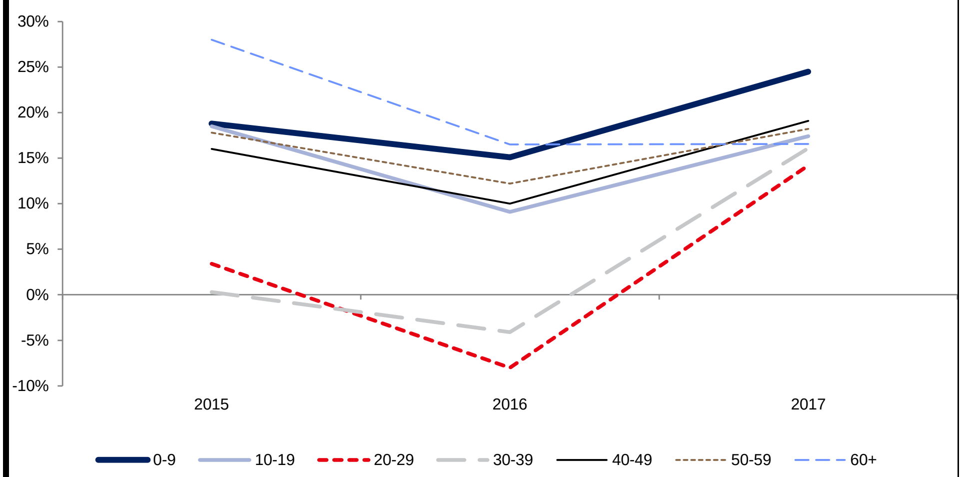
Positive public sentiment on packaged tours

Five years ago, the perception of packaged tours was that: 1) they are for elderly; 2) additional fees and taxes are inadvertently billed and paid for; 3) lunch and dinner are in low quality banquet-style restaurants; 4) souvenir stores are filled with overpriced and low-quality goods; and 5) they offer 5-minute 'take-a-photo-and-go' type of sight-seeing. In order to overturn the stereotype, tour agencies have been making and sponsoring TV shows, in order to change the perception of overseas package tours. They have been diversifying their product portfolio, too, in order to narrowly target different generations, and widening sales channels further to social media and home-shopping channels.

In recent years, package tours' exposure has increased on TV and media, with dedicated TV shows on overseas travel. The popularity of package tour-oriented TV programmes has been the key trigger for the higher-than-expected demand for package tours, in our view. The initiation of the boom came with a show called 'Carefree Travelers', which aired in 2016. Back then, the weekly number of users (WAU) of Hana Tour and Modetour's mobile application increased by 114% and 192%, respectively, from those in 40s and 50s age group (during Sep 2016-Feb 2017). Other notable programmes, such as 'Grandpas over flowers' (Jul 2013-May 2015), 'Battle Trip' (Apr 2016-present), 'Salty Tour' (Nov 2017-present), have contributed to the growth in overseas package tours. These shows have been geared towards showing 1) relaxed sightseeing, 2) authentic local food, and 3) meeting with locals, all of which we think the conventional package tours cannot offer.

It is apparent that middle-aged Koreans prefer to travel in bigger groups. According to surveys conducted by Korea Tourism Organisation (KTO), more than 50% of Koreans over the age of 40 prefer package tours, due to the relative ease with which they can book a tour. This has not been the case for people aged under 40; however, things are changing. Given the positive exposure of package tours, people in the 20-40 age group contributed to the growth of package tours (+14% for 20-29, +16% for 30-39) in CY17, after years of lacklustre growth, according to Modetour.

Figure 31: Outbound package tour growth by age



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

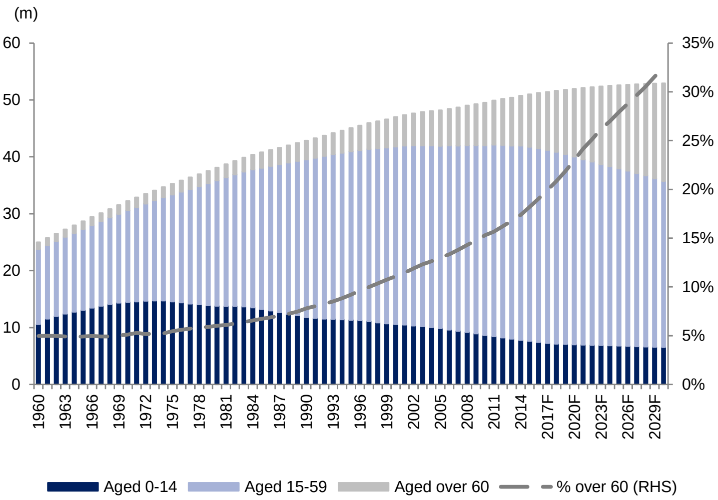
Demographic - Ageing population

The number of people over the age of 60 years in Korea has been continuously rising since 2015, and we expect the momentum to strengthen given the sustained low birth rate. According to Statistics Korea, population over 60 years is expected to register a CAGR of 5.2% over CY16-21F, up from the CAGR of 4.1% during CY10-15. Due to the slowing growth in total population (less than 1%), the proportion of population over 60 years is expected to rise from 19% in CY16 to 23% in CY20F, marking the start of an ageing society, according to Statistics Korea.

As noted in our previous note '*Travel demand among baby boomers triggered*', given the ageing trend of baby boomers (born 1955-63), who now are entering the retirement stage, we believe they will bolster the demand for outbound packaged tours.

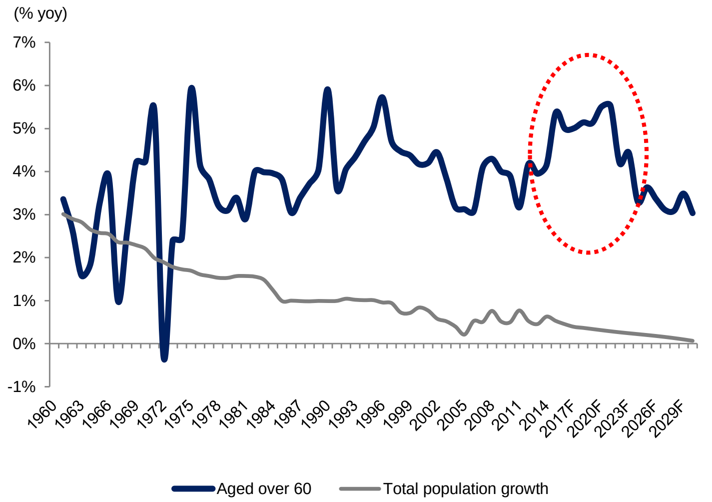
The baby boomers, who have mostly retired, have flexibility in their spending and time to spare. They are willing to spend more on traveling and leisure activities, in order to enjoy the life after retirement. Modetour disclosed that people over 50 years of age accounted for 49% of its total outbound customers. Growth in over 60 years of age outbound travellers was notable at 23.8% in FY17, while the overall outbound traffic increased by 19%, according to Modetour.

Figure 32: Yearly population demographic trend



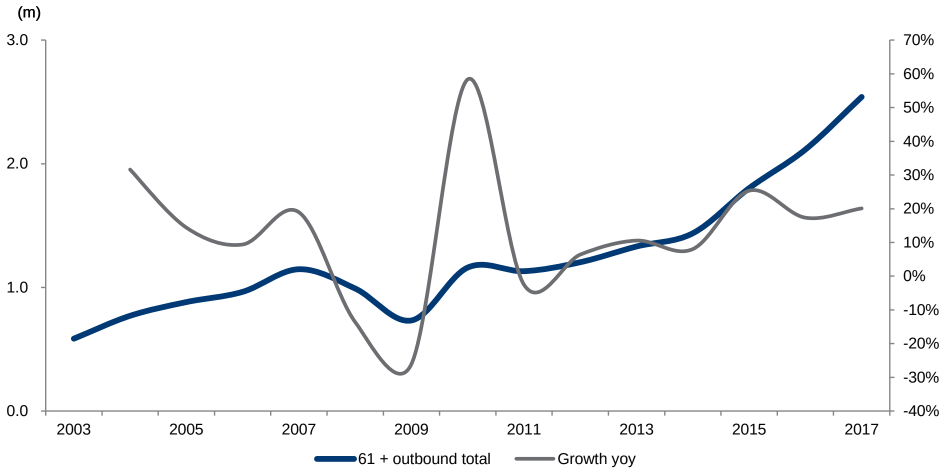
SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 33: Yearly population growth yoy vs. aged 60+ yoy growth



SOURCES: CGS-CIMB RESEARCH, KOSIS

Figure 34: Yearly outbound trend of population aged 61+



SOURCES: CGS-CIMB RESEARCH, KOSIS

Outbound trends – 'more, shorter, cheaper'

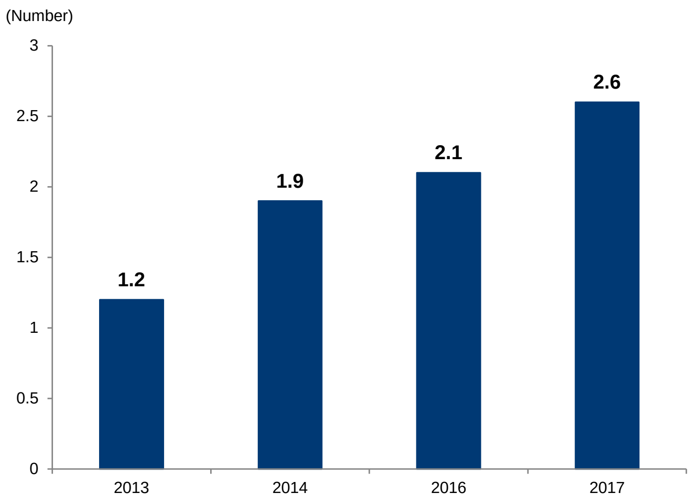
We believe the trend of 'more, shorter, cheaper' will drive the demand for outbound travel in Korea during CY18-20F. Koreans will travel more frequently, preferably to short-haul destinations, backed by affordable flights offered by LCCs.

According to a survey done by KTO during CY17, 90% of the respondents expressed an intent to travel overseas in the following year, a gradual increase from 85% in CY14. Looking back, the average frequency of annual outbound trips increased to 2.6x in CY17, from 1.9x in CY14.

During CY17, the most popular outbound destination amongst Koreans was Japan, followed by Vietnam and the Philippines, which are short-haul travel destinations for a quick three-day trip. The average length (days) of outbound trip decreased to 5.9 days in CY17 from 6.5 in CY14.

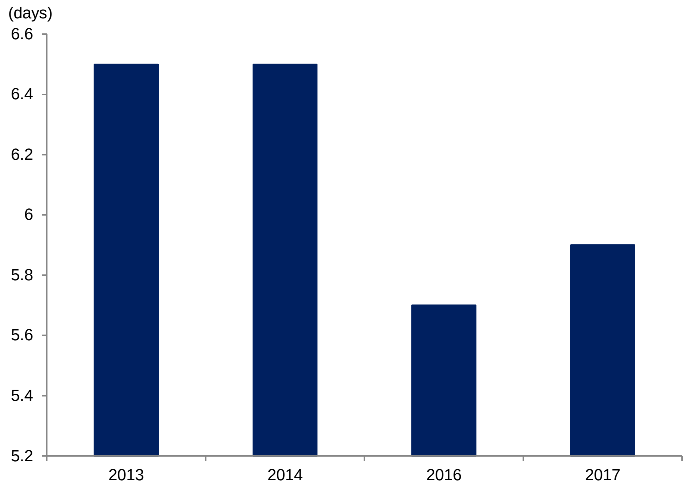
We expect the positive LCC trend to persist, not only due to LCCs' attractive pricing vs. full-service carriers (FSC) but also due to exclusive destinations offered by LCCs. The incremental market share gain is accelerating, with 4% pts gain from Jan 17 to Dec 17, and 6.5% pts gain p.a. over FY16-17. We expect the favourable trend to continue, and for LCCs to reach 30% market share in 2018. As they start providing long-haul destinations, we expect furthur acceleration in market share growth, given the larger price gap between FSCs and LCCs on long-haul destinations.

Figure 35: Average number of overseas travels per year (based on responses from those who went abroad in the past year)



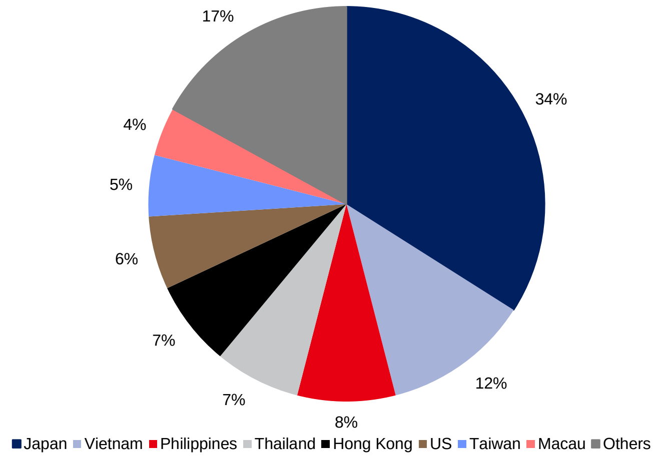
SOURCES: CGS-CIMB RESEARCH, KTO (2017)

Figure 36: Average number of days in overseas trips



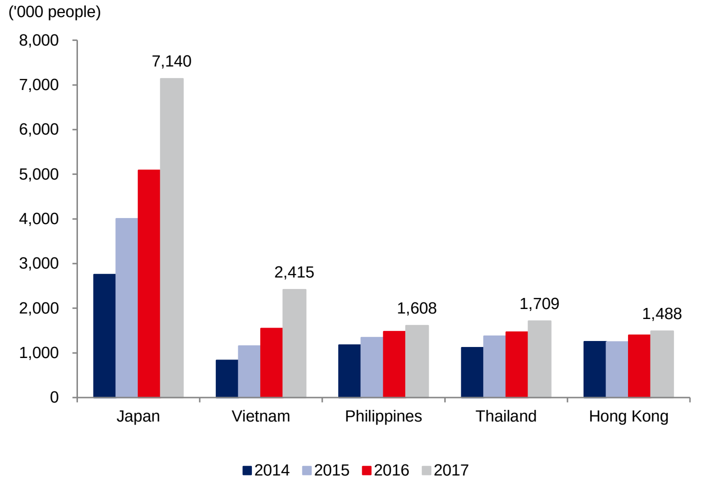
SOURCES: CGS-CIMB RESEARCH, KTO (2017)

Figure 37: Korean's outbound travel destinations in 2017



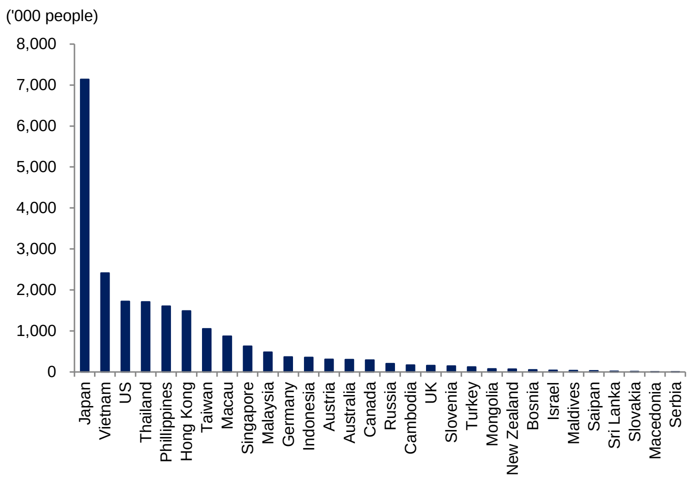
SOURCES: CGS-CIMB RESEARCH, KTO (2017)

Figure 38: Top destinations for Korean outbound tourists



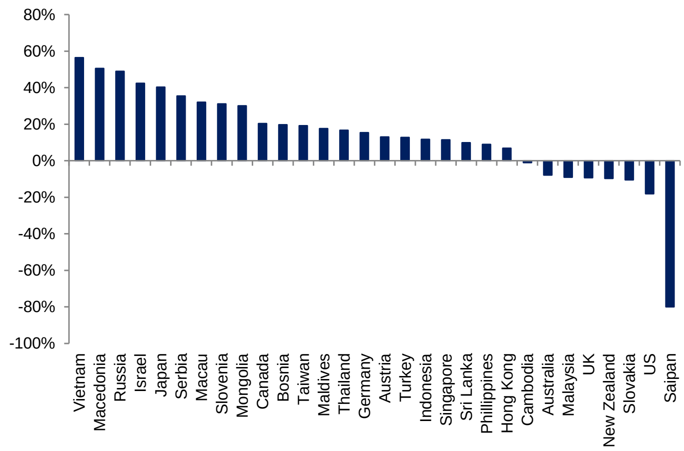
SOURCES: CGS-CIMB RESEARCH, KTO (2017)

Figure 39: Outbound destinations by Korean travellers in 2017



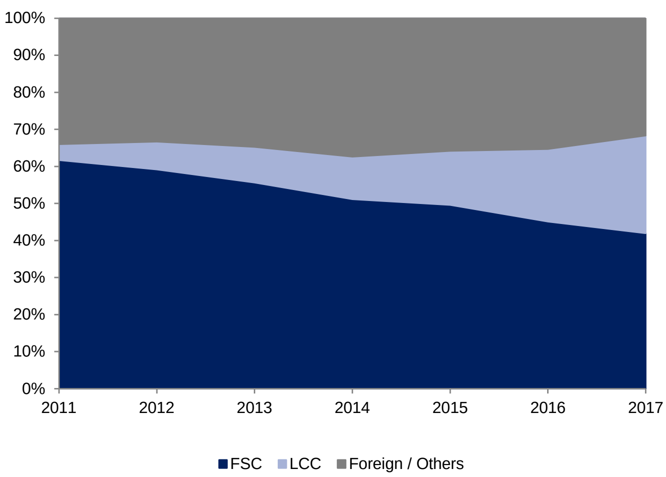
SOURCES: CGS-CIMB RESEARCH, KTO (2017)

Figure 40: Korean outbound growth by region – 2017



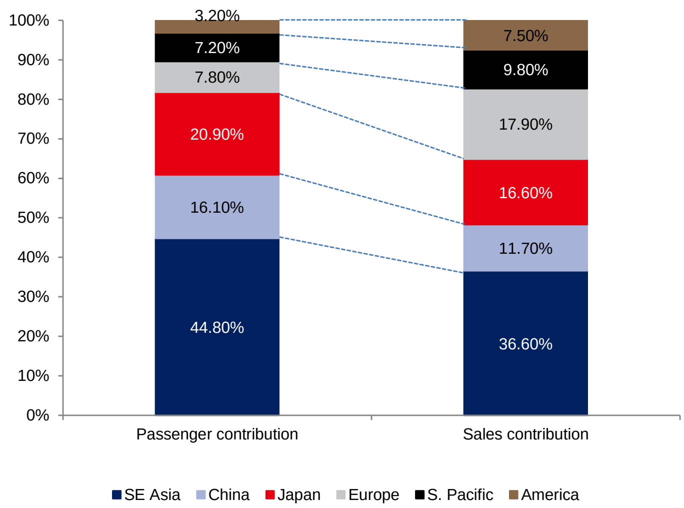
SOURCES: CGS-CIMB RESEARCH, KTO (2017)

Figure 41: International flight trends



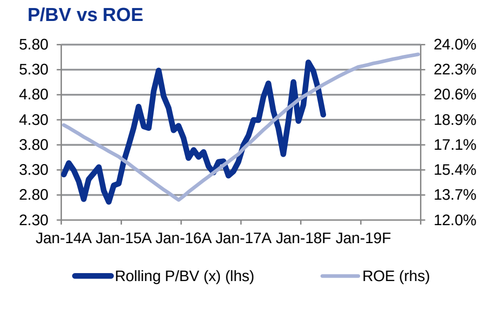
SOURCES: CGS-CIMB RESEARCH, AIRPORTAL

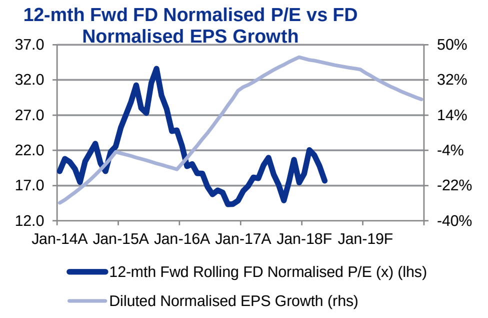
Figure 42: Modetour passenger & sales contribution by destination as of FY17



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Wb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	**237.1**	**290.9**	**441.9**	**517.3**	**604.5**
Gross Profit	**237.1**	**290.9**	**441.9**	**517.3**	**604.5**
Operating EBITDA	**22.8**	**35.0**	**44.8**	**54.3**	**70.4**
Depreciation And Amortisation	(2.7)	(3.0)	(3.7)	(3.1)	(2.7)
Operating EBIT	**20.1**	**32.0**	**41.1**	**51.2**	**67.7**
Financial Income/(Expense)	0.9	1.1	0.4	0.4	0.4
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	1.9	(0.3)	3.4	4.0	4.0
Profit Before Tax (pre-EI)	**22.9**	**32.8**	**44.9**	**55.5**	**72.1**
Exceptional Items					
Pre-tax Profit	**22.9**	**32.8**	**44.9**	**55.5**	**72.1**
Taxation	(7.0)	(8.7)	(12.1)	(15.6)	(20.5)
Exceptional Income - post-tax					
Profit After Tax	**15.9**	**24.1**	**32.8**	**40.0**	**51.5**
Minority Interests	0.9	(0.0)	0.3	0.4	0.5
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	**16.8**	**24.1**	**33.1**	**40.4**	**52.0**
Normalised Net Profit	15.9	24.1	32.8	40.0	51.5
Fully Diluted Normalised Profit	**16.8**	**24.1**	**33.1**	**40.4**	**52.0**

Cash Flow

(Wb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	22.79	35.02	44.77	54.32	70.43
Cash Flow from Invt. & Assoc.					
Change In Working Capital	11.64	12.27	46.51	21.05	23.31
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1.50	-1.16	0.00	0.00	0.00
Other Operating Cashflow	1.56	-0.26	3.43	4.00	4.00
Net Interest (Paid)/Received	1.22	1.03	0.36	0.36	0.36
Tax Paid	-7.03	-8.68	-12.15	-15.55	-20.54
Cashflow From Operations	**31.68**	**38.22**	**82.93**	**64.18**	**77.57**
Capex	-1.85	-1.44	-1.20	-1.20	-1.20
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	-4.27	-52.39	-24.12	-21.90	-22.10
Cash Flow From Investing	**-6.12**	**-53.83**	**-25.32**	**-23.10**	**-23.30**
Debt Raised/(repaid)	0.74	1.74	-0.77	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-4.61	-6.91	-8.19	-13.59	-65.21
Preferred Dividends					
Other Financing Cashflow	-7.99	15.58	0.00	0.00	0.00
Cash Flow From Financing	**-11.86**	**10.41**	**-8.96**	**-13.59**	**-65.21**
Total Cash Generated	13.70	-5.20	48.65	27.49	-10.95
Free Cashflow To Equity	**26.30**	**-13.87**	**56.84**	**41.08**	**54.27**
Free Cashflow To Firm	**25.94**	**-15.18**	**59.01**	**42.48**	**55.67**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(Wb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	112.2	163.5	232.1	279.6	288.7
Total Debtors	38.8	45.1	69.8	81.1	93.5
Inventories	0.1	0.1	0.0	0.0	0.0
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	**151.1**	**208.7**	**301.9**	**360.7**	**382.1**
Fixed Assets	21.9	22.5	20.0	17.9	16.3
Total Investments	24.5	96.7	96.7	96.7	96.7
Intangible Assets	5.6	2.6	2.7	2.8	2.9
Total Other Non-Current Assets	7.3	7.7	11.8	13.7	15.8
Total Non-current Assets	**59.2**	**129.5**	**131.2**	**131.2**	**131.7**
Short-term Debt	2.6	14.5	14.5	14.5	14.5
Current Portion of Long-Term Debt	0.5	0.8	0.0	0.0	0.0
Total Creditors	58.8	66.6	103.9	120.6	139.1
Other Current Liabilities	41.2	59.9	92.0	106.7	123.1
Total Current Liabilities	**103.1**	**141.8**	**210.4**	**241.8**	**276.7**
Total Long-term Debt	2.3	30.2	30.2	30.2	30.2
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.4	3.2	5.0	5.8	6.7
Total Non-current Liabilities	**4.6**	**33.4**	**35.2**	**36.0**	**36.9**
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**107.7**	**175.2**	**245.5**	**277.8**	**313.5**
Shareholders' Equity	103.4	134.8	159.7	186.5	173.3
Minority Interests	(0.8)	28.2	27.9	27.5	27.0
Total Equity	**102.7**	**163.0**	**187.6**	**214.0**	**200.3**

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	16.0%	22.7%	51.9%	17.1%	16.9%
Operating EBITDA Growth	16.6%	53.7%	27.8%	21.3%	29.7%
Operating EBITDA Margin	9.6%	12.0%	10.1%	10.5%	11.7%
Net Cash Per Share (W)	5,652	6,242	9,915	12,428	12,907
BVPS (W)	5,471	7,133	8,450	9,868	9,171
Gross Interest Cover	52.99	74.47	29.37	36.56	48.36
Effective Tax Rate	30.7%	26.5%	27.0%	28.0%	28.5%
Net Dividend Payout Ratio	41%	34%	41%	40%	125%
Accounts Receivables Days	50.40	52.64	47.46	53.23	52.84
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	(116%)	(122%)	(85%)	(56%)	(61%)
ROCE (%)	22.6%	23.0%	21.3%	23.2%	29.2%
Return On Average Assets	7.6%	8.4%	8.4%	8.6%	10.2%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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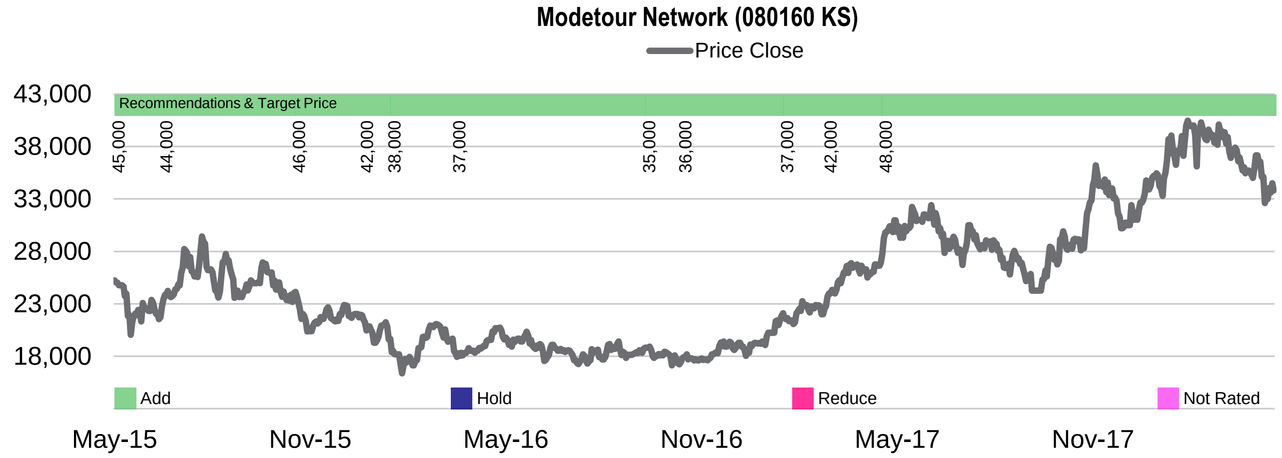

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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