

July 3, 2018

Modetour Network (080160)

2Q18 preview: 2H18 hopes intact

Earnings to erode on softer travel demand

We estimate 2Q18 sales at W94.2bn and OP at W6.0bn, short of consensus. Consolidated OP should plunge 18.2% YoY on weak parent earnings. However, total users increased by 3.2% and package users 13.2% in 2Q18. By region, package users traveling to China in 2Q18 grew 71.5% YoY, Japan 11.6% YoY, Southeast Asia 3.5% YoY and Europe 2.7% YoY, while declining 0.4% YoY to the South Pacific and 18.9% YoY to the Americas. We attribute the soft demand to a higher base effect given the golden holiday period last year (April 29 – May 9) and local elections in June. Travel to China, which deteriorated over the past year due to the THAAD dispute, should drive top-line growth mostly fueled by base effect. However, travel to Japan, which had been growing steadily, contracted in June due to the earthquake in Osaka and this may weigh on short-term demand. Of note, we estimate parent OP at W6.2bn, down 21.4% YoY, on a lower ASP.

Consolidated subsidiaries to improve slightly YoY

Combined operating losses at consolidated subsidiaries should narrow from W0.4bn in 2Q17 to W0.2bn given the earnings contribution from Modetour REIT from 4Q17 and overseas subsidiaries from 1Q18. However, we estimate Jautour will post operating losses of W0.4bn as earnings trend in the same direction as the parent company. We believe a turnaround is likely in 2H18. Modetour Stay should post operating losses of W0.5bn, in line with 1Q18, due to the opening of the fourth Staz Hotel. Modetour REIT should post stable OP of W0.5bn given its business structure.

2H18 hopes intact; lower TP to W38,000

We maintain BUY as 2H18 hopes remain intact, but we revise down our TP from W42,000 to W38,000 (20x 12MF PE, five-year trailing average excluding one-off factors) as we lower our earnings forecast and target valuations. As reservation rates (announced on July 2) rose to 12.7% for July and 15.5% for August, earnings should recover in 2H18 on better demand.

Yr to Dec	Sales (W bn)	OP (W bn)	NP (W bn)	EPS (KRW)	% chg (YoY)	EBITDA (W bn)	PE (x)	EV/EBITDA (x)	PB (x)	ROE (%)	DY (%)
2016A	237	20	17	953	29.4	23	20.3	10.5	2.8	16.5	2.1
2017A	291	32	24	1,340	40.6	35	22.8	13.9	3.8	20.3	1.5
2018F	423	39	30	1,663	24.1	42	15.3	7.9	2.8	20.9	2.4
2019F	470	49	38	2,072	24.6	52	12.3	6.0	2.4	22.5	2.7
2020F	514	57	43	2,382	15.0	59	10.7	4.8	2.1	22.2	2.9

Note: Net profit and EPS are based on figures attributed to controlling interest

12M rating **BUY (Maintain)**

12M TP **W38,000** from W42,000

Up/downside **+49%**

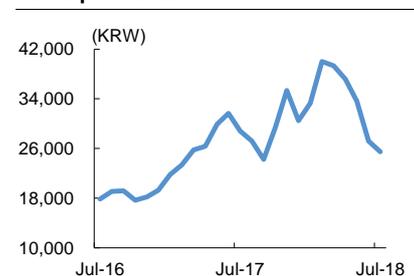
Stock Data

KOSPI (Jul 2, pt)	2,272
Stock price (Jul 2, KRW)	25,500
Market cap (USD mn)	430
Shares outstanding (mn)	19
52-Week high/low (KRW)	40,450/24,250
6M avg. daily turnover (USD mn)	5.3
Free float / Foreign ownership (%)	79.7/44.0
Major shareholders (%)	
Jong-Ung Woo and 13 others	15.4
NPS	7.4

Performance

	1M	6M	12M
Absolute (%)	(21.3)	(21.3)	(19.4)
Relative to KOSDAQ (%)	(10.7)	(18.5)	(37.5)

Stock price trend



Source: WISEfn

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Table 1. 2Q18 preview

(W bn, %, %p)

	2Q17	1Q18	2Q18F	QoQ	YoY	Consensus	% diff.
Sales	67.3	109.8	94.2	(14.3)	NA	91.3	3.1
OP	7.3	9.1	6.0	(34.3)	(18.2)	8.3	(27.4)
OP margin (%)	10.9	8.3	6.4	(1.9)	(4.5)	9.0	(2.7)
EBT	8.4	9.7	6.8	(29.8)	(19.7)	8.8	(23.0)
NP	6.1	8.0	5.1	(36.1)	(16.4)	6.6	(22.9)

Note: Revenue recognition changed due to K-IFRS 1115 from 2018, so YoY sales growth not applicable
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	6,444	7,610	7,370
Modetour total users	578	519	613	589	709	630	695	698	764	650	821	819
Modetour package users	356	303	340	347	420	333	352	399	450	377	412	469
Market share (%)	11.2	11.1	10.8	11.1	11.6	11.0	10.6	10.8	10.9	10.1	10.8	11.1
Sales	59.5	54.3	64.2	59.1	90.4	67.3	72.7	77.0	109.8	94.2	111.9	107.2
Parent	53.1	46.4	55.7	50.7	79.5	70.8	77.2	80.6	94.3	79.5	95.0	88.5
Subsidiaries	6.7	8.2	8.8	9.0	10.0	10.7	10.7	13.1	17.0	16.2	18.7	20.2
Operating costs	55.2	50.6	55.9	55.2	79.4	60.0	64.5	71.3	100.7	88.2	98.9	96.2
OP	4.3	3.7	8.3	3.8	11.0	7.3	8.1	5.6	9.1	6.0	13.1	11.0
OPM	7.3	6.8	13.0	6.5	12.2	10.9	11.2	7.3	8.3	6.4	11.7	10.2
EBT	4.9	4.7	9.1	4.3	10.9	8.4	8.5	5.1	9.7	6.8	13.7	10.0
NP	3.5	3.5	6.9	2.9	8.1	6.1	5.9	4.1	8.0	5.1	10.1	7.4
(YoY)												
Domestic departures	18.9	14.7	21.3	11.4	18.1	21.7	16.1	21.2	14.4	12.8	15.8	14.5
Modetour total users	18.8	18.2	26.1	12.8	22.6	21.5	13.5	18.4	7.7	3.2	18.1	17.3
Modetour package users	6.3	5.3	16.7	9.8	17.8	10.0	3.5	15.0	7.2	13.2	17.0	17.5
Market share (%)	(0.0)	0.3	0.4	0.1	0.4	(0.0)	(0.2)	(0.3)	(0.7)	(0.9)	0.2	0.3
Sales	18.2	9.4	24.8	11.6	51.9	23.9	13.2	30.3	21.5	40.0	54.0	39.3
Parent	13.4	5.9	22.5	9.8	49.7	52.8	38.7	59.1	18.6	12.2	23.0	9.8
Subsidiaries	53.2	15.8	54.4	20.3	50.8	30.5	21.1	46.2	69.6	51.0	75.3	53.7
Operating costs	25.2	13.9	16.1	7.9	43.8	18.5	15.5	29.1	26.8	47.1	53.1	34.9
OP	(30.9)	(28.9)	149.6	123.3	154.8	99.9	(2.3)	48.1	(17.1)	(18.2)	60.9	94.3
OPM	(5.2)	(3.6)	6.5	3.2	4.9	4.1	(1.8)	0.9	(3.9)	(4.5)	0.5	2.9
EBT	(33.9)	(25.7)	118.8	2,929.1	122.1	81.4	(7.0)	20.0	(11.1)	(19.7)	62.5	95.8
Controlling-interest NP	(37.5)	(13.9)	113.1	897.0	130.5	71.6	(14.5)	45.3	(1.5)	(16.4)	72.3	77.6

Note: 1. Excluding crew for domestic departures; 2. Applied K-IFRS 1115 sales recognition standard, 2Q17-4Q17 sales and operating expenses are based on previous accounting practices. YoY sales and operating costs growth not applicable due to significant changes under new standard.
Source: Company data, Korea Investment & Securities

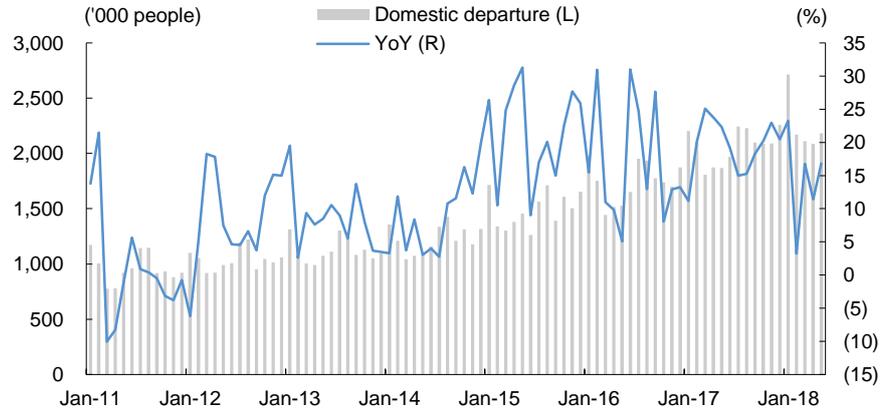
Table 3. Quarterly earnings (non-consolidated)

(W bn, %, %p)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18F	QoQ	YoY
Sales	53.1	46.4	55.7	50.7	79.5	70.8	77.2	80.6	94.3	79.5	(15.7)	12.2
Air tickets	4.4	3.4	3.6	4.0	3.4	3.7	3.7	4.8	5.0	4.2	(15.0)	13.8
Travel commissions	43.8	38.3	48.2	41.2	55.1	61.5	66.4	68.9	56.0	49.8	(11.2)	(19.1)
Air-ticket sales	-	-	-	-	15.2	-	-	-	25.8	19.9	(22.7)	-
Others	4.9	4.7	4.0	5.5	5.8	5.6	7.1	6.9	7.5	5.5	(26.3)	(0.9)
Operating costs	46.8	41.6	46.6	45.3	67.8	63.0	68.4	76.2	83.8	73.3	(12.5)	16.4
OP	6.3	4.8	9.0	5.4	11.7	7.9	8.8	4.5	10.5	6.2	(41.2)	(21.4)
OPM	11.9	10.3	16.2	10.6	14.8	11.1	11.4	5.5	11.2	7.8	(3.4)	(3.3)
EBT	6.8	5.7	9.6	3.3	11.5	10.1	9.5	(0.7)	12.1	7.4	(39.0)	(26.6)
NP	5.2	4.3	7.4	2.5	8.8	7.5	7.2	(0.4)	9.6	5.8	(39.0)	(22.7)

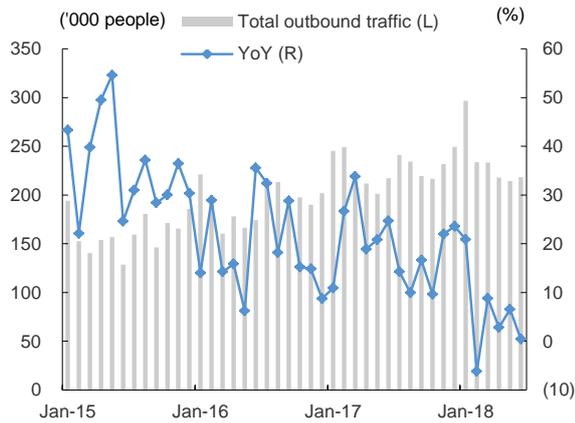
Note: Retrospectively applied K-IFRS 1115 to 1Q17 figures as the new standards replace the previous sales recognition rules effective from 2018. But, 2Q17-4Q17 results are based on previous accounting practices.
Source: Company data, Korea Investment & Securities

Figure 1. Domestic departures



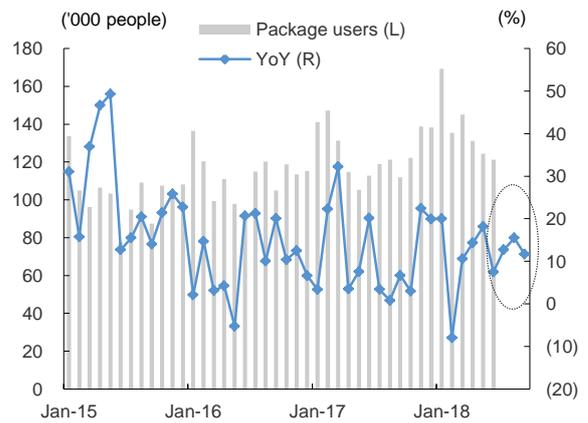
Note: Excluding crew for domestic departures
Source: Company data, Korea Investment & Securities

Figure 2. Modetour total outbound traffic growth



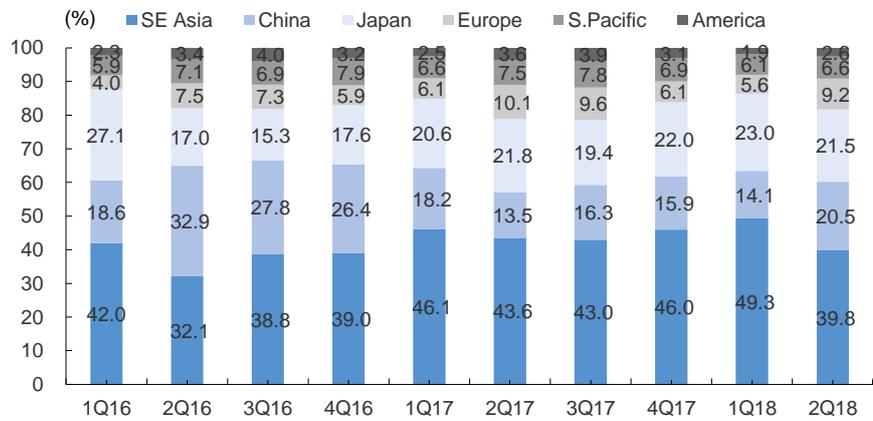
Source: Company data, Korea Investment & Securities

Figure 3. Modetour package buyers and reservation rates

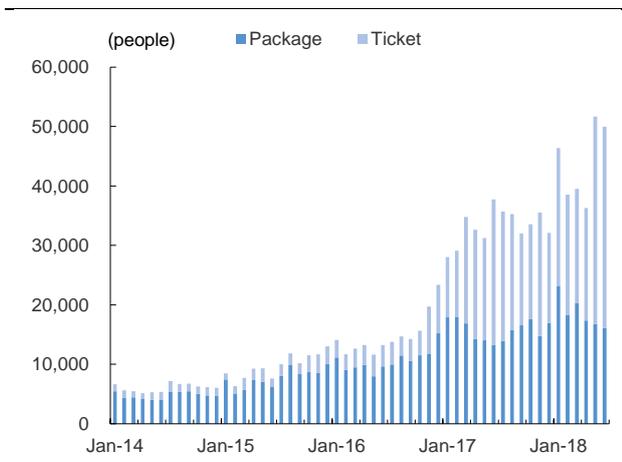


Note: Jul-Sep 2018 reservation rate from data released on Jul 2
Source: Company data, Korea Investment & Securities

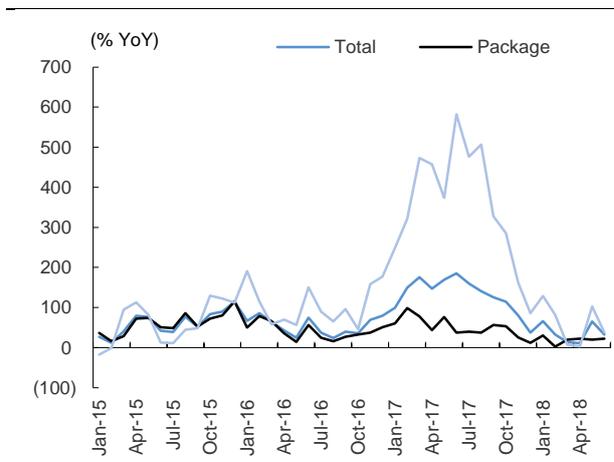
Figure 4. Passenger weightings by destination (no. of passengers)



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

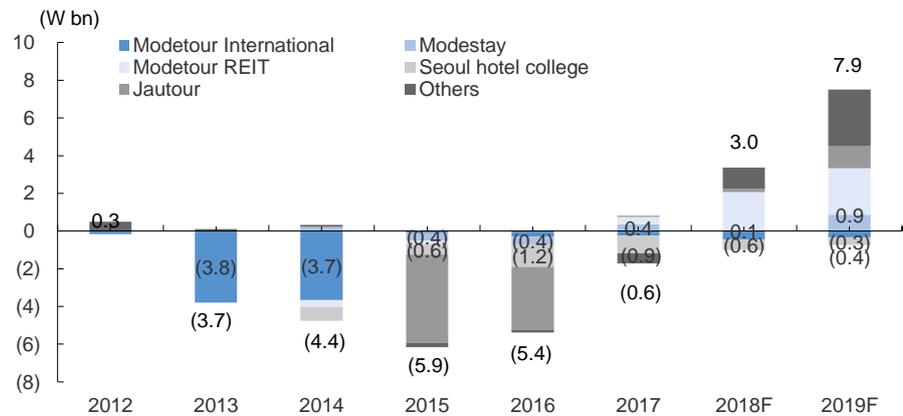
Table 4. Consolidated subsidiary quarterly earnings

(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	18.7	20.2
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	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	0.4	0.4	0.4	0.4
Modetour Japan	-	-	-	-	-	-	-	-	0.8	0.8	1.0	1.0
Other overseas branches	-	-	-	-	-	-	-	-	-	-	0.3	0.4
OP	(2.0)	(1.1)	(0.7)	(1.6)	(0.7)	(0.4)	(0.7)	1.3	(1.4)	(0.2)	1.7	2.9
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)	(0.5)	0.3	0.8
Modetour REIT	-	-	-	-	-	-	-	0	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)	(0.4)	0.5	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	0.1	0.2	0.2	0.1
Modetour Japan	-	-	-	-	-	-	-	-	0.3	0.2	0.4	0.4
Other overseas branches	-	-	-	-	-	-	-	-	-	-	0.1	0.4

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 July 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

	2015	2016	YoY	2017	YoY	2018F	YoY	2019F	YoY
Domestic departures (excl. crew)	17,886	20,844	16.5	24,837	19.2	28,422	14.4	31,601	11.2
Modetour total customers	1,935	2,299	18.9	2,733	18.8	3,054	11.8	3,613	18.3
Modetour package buyers	1,231	1,346	9.4	1,504	11.7	1,707	13.5	1,903	11.4
Market share (%)	10.8	11.0	0.2	11.0	(0.0)	10.7	(0.3)	11.4	0.7
Sales	204.3	237.1	16.0	290.9	22.7	423.1	45.4	470.5	11.2
Operating costs	187.9	217.0	15.5	258.8	19.3	384.0	48.3	421.4	9.8
OP	16.5	20.1	22.3	32.1	59.6	39.2	22.0	49.0	25.1
OPM (%)	8.1	8.5	0.4	11.0	2.6	9.3	(1.8)	10.4	1.2
EBT	18.0	22.9	27.6	32.9	43.5	40.2	22.3	50.0	24.3
Controlling-interest NP	13.2	16.8	26.6	24.2	44.2	30.5	26.2	37.6	23.1

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

	2018F			2019F		
	Previous	Revised	Chg	Previous	Revised	Chg
Sales	429.9	423.1	(1.6)	483.3	470.5	(2.7)
OP	41.3	39.2	(5.1)	52.3	49.0	(6.1)
OPM	9.6	9.3	(0.3)	10.8	10.4	(0.4)
EBT	42.9	40.2	(6.3)	54.8	50.0	(8.7)
NP	33.1	30.5	(7.7)	41.9	37.6	(10.2)

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 nine 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	300	328	353
Cash & cash equivalent	58	53	76	83	89
Accounts & other receivables	39	45	66	73	80
Inventory	0	0	0	0	0
Non-current assets	59	130	178	195	209
Investment assets	22	16	24	26	28
Tangible assets	22	23	23	24	23
Intangible assets	6	3	3	3	3
Total assets	210	338	477	523	563
Current liabilities	103	142	265	286	307
Accounts & other payables	59	67	97	108	118
ST debt & bond	2	14	18	20	15
Current portion of LT debt	1	1	1	0	0
Non-current liabilities	5	33	31	30	18
Debentures	0	0	0	0	0
LT debt & financial liabilities	4	32	29	28	16
Total liabilities	108	175	295	316	325
Controlling interest	103	135	154	179	209
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	134	159	189
Minority interest	(1)	28	28	28	28
Shareholders' equity	103	163	182	208	238

Cash flow

(W bn)

FY-ending Dec.	2016A	2017A	2018F	2019F	2020F
C/F from operating	32	38	120	49	61
Net profit	16	24	30	38	43
Depreciation	2	2	2	2	2
Amortization	1	1	0	0	0
Net incr. in W/C	12	12	87	9	16
Others	1	(1)	1	0	0
C/F from investing	(6)	(54)	(87)	(30)	(25)
CAPEX	(1)	(1)	(3)	(3)	(2)
Decr. in fixed assets	0	0	0	0	0
Incr. in investment	(8)	(50)	(7)	(2)	(2)
Net incr. in intangible assets	(1)	(0)	(1)	(0)	(0)
Others	4	(3)	(76)	(25)	(21)
C/F from financing	(12)	11	(10)	(12)	(30)
Incr. in equity	0	17	0	0	0
Incr. in debts	1	2	1	0	(17)
Dividends	(5)	(7)	(8)	(11)	(12)
Others	(8)	(1)	(3)	(1)	(1)
C/F from others	0	(1)	0	0	0
Increase in cash	14	(5)	23	7	6

Note: Based on K-IFRS (consolidated)

Income statement

(W bn)

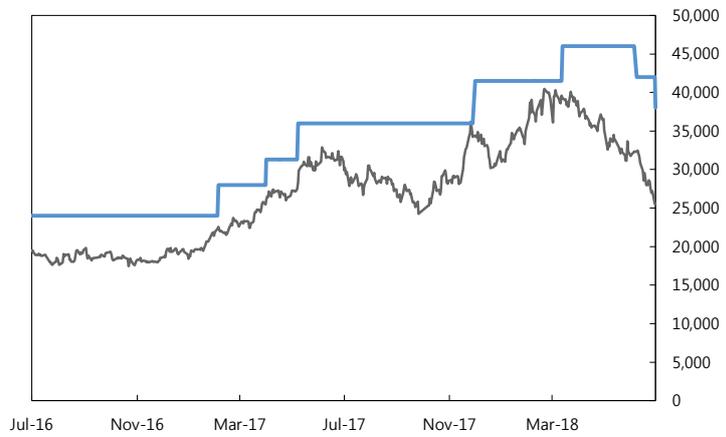
FY-ending Dec.	2016A	2017A	2018F	2019F	2020F
Sales	237	291	423	470	514
COGS	11	11	0	0	0
Gross profit	226	280	423	470	514
SG&A expense	206	248	384	421	457
Operating profit	20	32	39	49	57
Financial income	2	1	2	2	3
Interest income	2	1	2	2	3
Financial expense	0	1	1	2	2
Interest expense	0	0	1	2	2
Other non-operating profit	(1)	(3)	0	(0)	(0)
Gains (Losses) in associates, subsidiaries and JV	2	3	0	0	0
Earnings before tax	23	33	40	50	57
Income taxes	7	9	10	12	14
Net profit	16	24	30	38	43
Net profit of controlling interest	17	24	30	38	43
Other comprehensive profit	(0)	(0)	0	0	0
Total comprehensive profit	16	24	30	38	43
Total comprehensive profit of controlling interest	16	24	30	38	43
EBITDA	23	35	42	52	59

Key financial data

FY-ending Dec.	2016A	2017A	2018F	2019F	2020F
per share data (KRW)					
EPS	953	1,340	1,663	2,072	2,382
BPS	6,983	8,121	9,143	10,477	12,060
DPS	400	450	600	680	730
Growth (%)					
Sales growth	16.0	22.7	45.4	11.2	9.2
OP growth	22.3	59.6	22.0	25.1	15.3
NP growth	26.6	44.2	24.8	24.3	15.0
EPS growth	29.4	40.6	24.1	24.6	15.0
EBITDA growth	17.4	53.3	19.3	23.0	14.1
Profitability (%)					
OP margin	8.5	11.0	9.3	10.4	11.0
NP margin	7.1	8.3	7.1	8.0	8.4
EBITDA margin	9.7	12.1	9.9	11.0	11.5
ROA	8.1	8.8	7.4	7.5	8.0
ROE	16.5	20.3	20.9	22.5	22.2
Dividend yield	2.1	1.5	2.4	2.7	2.9
Dividend payout ratio	41.2	33.9	36.0	32.8	30.6
Stability					
Net debt (W bn)	(93)	(97)	(160)	(177)	(209)
Int-bearing debt/equity (%)	7.2	29.1	25.5	23.0	12.9
Valuation (X)					
PE	20.3	22.8	15.3	12.3	10.7
PB	2.8	3.8	2.8	2.4	2.1
EV/EBITDA	10.5	13.9	7.9	6.0	4.8

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	-22.8	-12.8
	11-06-18	BUY	W42,000	-31.3	-22.7
	03-07-18	BUY	W38,000	-	-



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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
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■ **Guide to Korea Investment & Securities Co., Ltd. stock rating allocation (as of Jun 30, 2018)**

BUY	Hold	Underweight (Sell)
78.3%	21.2%	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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