

# Mode Tour (080160 KQ)

Kim Soo-min

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Rating

**BUY**

maintain

6M TP (₩)

**40,000**

maintain

CP (₩)  
(18.07.17)**27,050**

Leisure

## Set sights on travel

### BUY and 6M TP of W40,000 maintained

- The target price of W40,000 is derived by applying the target P/E of 22x to the 12-month forward EPS of W1,808. Our residual income model values the company at W47,000.

### 2Q18 ASP to fall due to change in regional mix despite solid outbound travel growth

- In 2Q18, sales are forecast to expand 24.7% yoy to W83.9bn, while OP is forecast to fall 16.2% yoy to W6.1bn.

- The total number of outbound travelers ballooned 3.2%, with package tourists growing 13.2% yoy. Mode Tour succeeded in attracting a relatively large number of travelers, overcoming the unfavorable operating conditions both at home and abroad (such as high yoy comparison base, major domestic and international events, and disasters in major tourist attractions), yet its average selling price declined by an estimated 5% due to some changes in the regional mix. Mode Tour's standalone OP is forecast to decrease 28.5% yoy to W5.6bn.

- In 2Q18, the tour operator saw growth in outbound travelers from Korea to China (up 72% yoy), Japan (up 12% yoy), Europe (up 2% yoy), but not the Americas (down 19% yoy). Short-haul trips surged, but long-distance trips decreased due to natural disasters, resulting in a decline in ASP.

- As of June 30, reservations for the next three months are as follows: July (12.7%, up by 1.6%p mom), August (15.5%; up by 5.6%p mom), and September (11.7%). The month-on-month increase in July and August suggests the pent-up demand is coming through as major issues that hurt travel demand in 1H18 are resolved. We predict a noticeable improvement in 2H18 earnings considering the low yoy comparison base of 4Q17. Mode Tour's standalone OP is forecast to fall 17.6% yoy to W16.2bn in 1H18 before rising back 57.4% yoy to W20.9bn in 2H18.

### Optimism for 2H18 core operations remains intact; subsidiaries to turn around

- In 2Q18, consolidated subsidiaries' combined OP is forecast to turn to black, at W0.5bn. Mode Tour REIT has been producing stable earnings (about W2bn a year) since it was consolidated in 4Q17, while Mode Tour Japan reached an OP of W0.3bn in the first quarter following the consolidation in 1Q18. Overseas subsidiaries' combined OP is likely to surpass the W1bn mark with ease, aided by European subsidiaries, in 2H18.

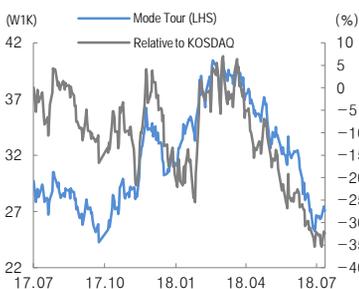
- Jau Tour tends to move in sync with its parent Mode Tour. The subsidiary is projected to incur a small operating loss in 2Q18, as it did a year earlier, but turn around in 3Q18 and swing into positive territory for the whole year of 2018 considering that it derives a larger share of revenue from the Chinese market than its parent. Mode Stay, another subsidiary, is expected to continue incurring a small operating loss due to the initial outlays related to "Stars No. 4 (located in Ulsan)", which opened in March 2018. But it is likely to keep its yearly OP growth at a single-digit level if the average daily room rate recovers in 2H18, given that the average occupancy rate at the first three sites remain at about 80%.

(Wbn, %)

	2Q17	1Q18	Previous estimate	Daishin estimate	2Q18(F)			3Q18		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Sales	67	110	87	84	24.7	-23.6	92	100	37.0	18.7
OP	7	9	8	6	-16.2	-32.7	8	13	56.9	107.9
NP	6	8	7	5	-17.3	-36.7	6	10	71.9	99.8

KOSDAQ	819.72
Market cap (Wbn)	511
Market cap portion (%)	0.19
Paid-in capital (common; Wbn)	9
52w high/low (₩)	40,450 / 24,250
120d avg. trading volume (Wbn)	5.7
Foreign ownership (%)	42.61
Major shareholders	Woo Jong-woong+13: 15.41% National Pension Service: 5.27%

(%)	1M	3M	6M	12M
Abs. return	-12.3	-24.2	-21.6	-6.9
Rel. return	-7.3	-16.7	-15.2	-25.0



Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Sales	237	291	396	435	499
OP	20	32	39	47	57
Pretax profit	23	33	41	49	59
NP (contr. int.)	17	24	31	37	44
EPS	1,330	1,279	1,621	1,942	2,339
PER	21.8	23.8	16.7	13.9	11.6
BPS	8,207	7,134	8,321	9,736	11,500
PBR	3.5	4.3	3.3	2.8	2.4
ROE	16.5	20.3	21.0	21.5	22.0

Note: EPS, BPS, and ROE are based only on the controlling interest.  
Source: Mode Tour, Daishin Securities Research Center

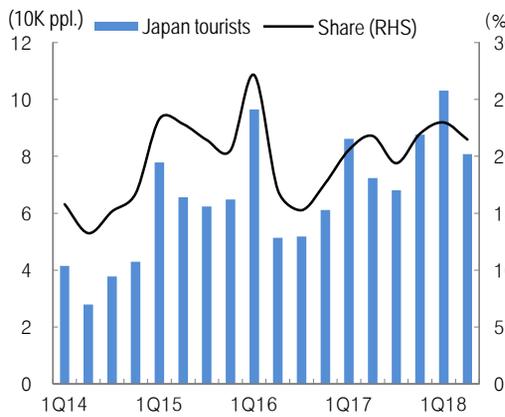
Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Change	
	2018F	2019F	2018F	2019F	2018F	2019F
Sales	401	440	396	435	-1.2	-1.3
Selling & adm. expense	287	326	284	323	-0.8	-0.9
OP	41	49	39	47	-4.7	-4.3
OP margin	10.1	11.1	9.8	10.8	-0.4	-0.3
Non-operating profit	2	2	2	2	0.0	0.0
Pretax profit	43	51	41	49	-4.5	-4.1
NP (controlling int.)	32	38	31	37	-4.5	-4.1
NP margin	8.0	8.7	7.7	8.4	-0.3	-0.2
EPS (controlling int.)	1,697	2,025	1,621	1,942	-4.5	-4.1

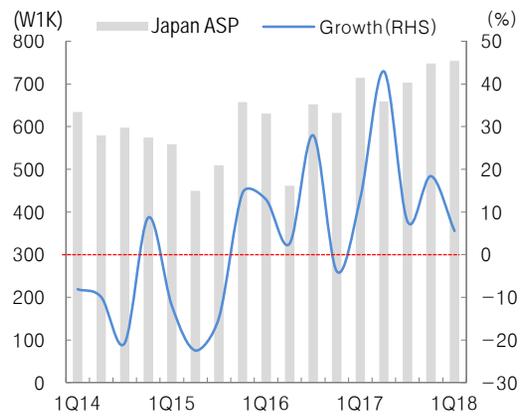
Source: Mode Tour, Daishin Securities Research Center

Fig 1. Mode Tour: Japan-bound travelers



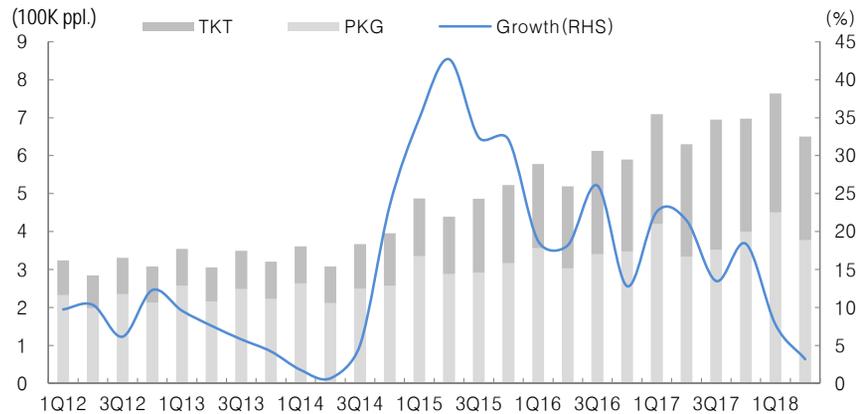
Source: Mode Tour, Daishin Securities Research Center

Fig 2. Mode Tour: Japan ASP and its yoy growth



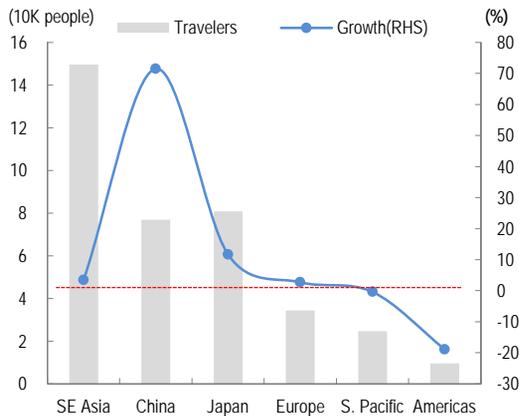
Source: Mode Tour, Daishin Securities Research Center

**Fig 3. Mode Tour: 2Q18 total and package outbound travelers rise 3.2% and 13.2% yoy, respectively**



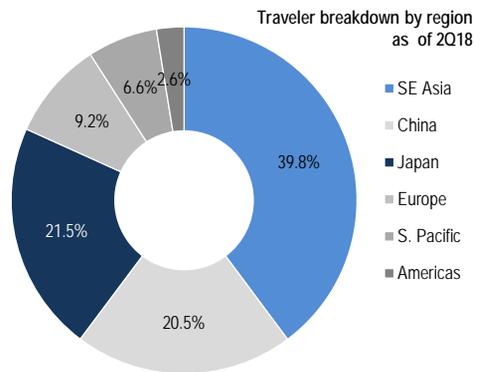
Source: Mode Tour, Daishin Securities Research Center

**Fig 4. Mode Tour: 2Q18 outbound travelers by region and their yoy growth**



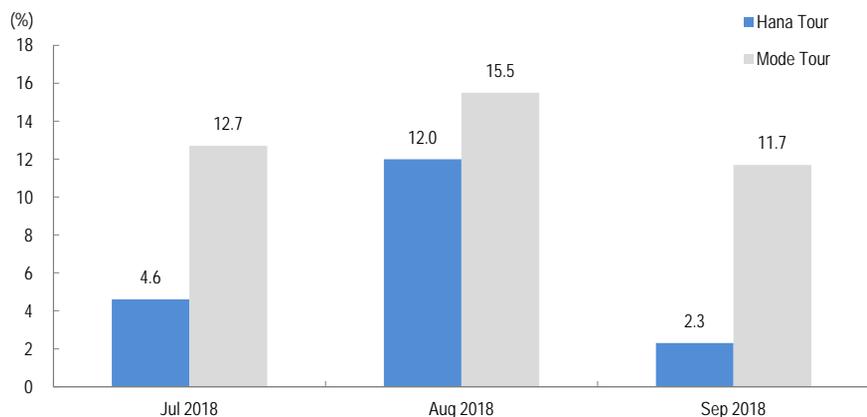
Source: Mode Tour, Daishin Securities Research Center

**Fig 5. Mode Tour: 2Q18 outbound traveler breakdown**



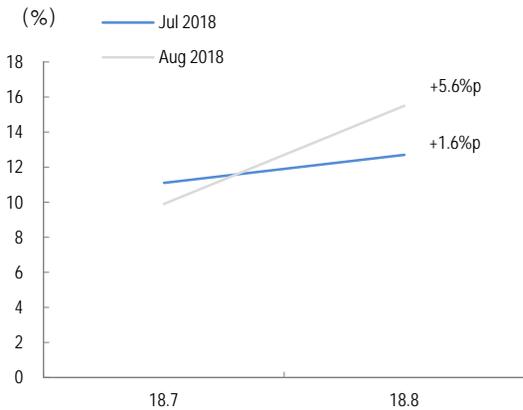
Source: Mode Tour, Daishin Securities Research Center

**Fig 6. Major travel service providers' reservation rates for the next three months (as of June)**



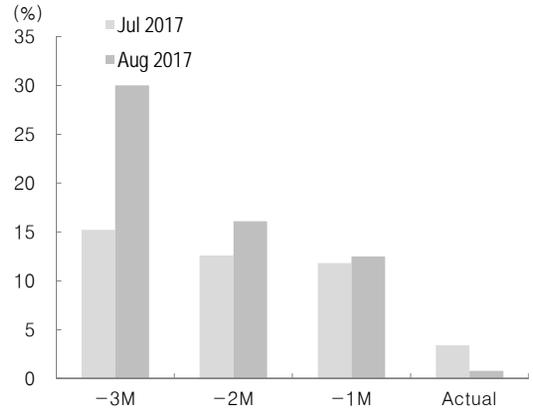
Note: Mode Tour (as of June 30, 2018), Hana Tour (as of July 11, 2018). Shows yoy growth.  
Source: Mode Tour, Hana Tour, Daishin Securities Research Center

Fig 7. Reservation rates currently on the rise



Source: Mode Tour, Daishin Securities Research Center

Fig 8. Reservation rates used to decline over time



Source: Mode Tour, Daishin Securities Research Center

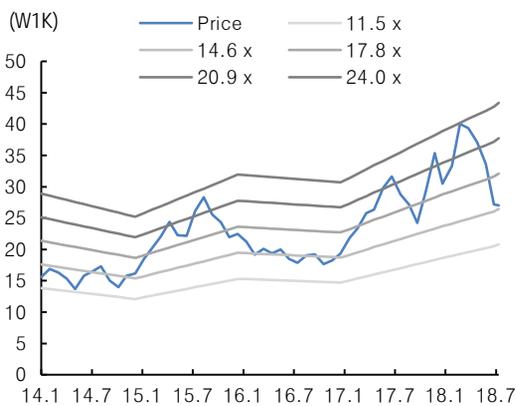
Tab 1. Mode Tour earnings

(W'00mn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18E	3Q18E	4Q18E	2015	2016	2017	2018E
Deposits	5,090	4,470	5,089	5,021	5,513	4,592	5,791	5,684	14,700	16,238	19,670	21,581
(YoY Growth)	20.6	24.0	12.8	28.8	8.3	2.7	13.8	13.2	15.3	10.5	21.1	9.7
Revenue	740	673	727	770	1,098	839	996	1,027	2,043	2,371	2,909	3,960
(YoY Growth)	24.3	23.9	13.2	30.3	48.4	24.7	37.0	33.5	24.1	16.0	22.7	36.1
Headquarters	643	573	625	652	943	721	845	860	1,822	2,058	2,494	3,369
Others	97	100	102	117	155	118	151	168	221	313	416	592
OP	110	73	81	55	91	61	128	106	165	201	320	386
(YoY Growth)	154.8	99.9	(2.3)	45.4	(17.1)	(16.2)	56.9	90.6	(0.9)	22.3	59.1	20.6
Headquarters	117	79	88	45	105	56	118	91	223	255	329	371
Others	(7)	(5)	(7)	11	(14)	5	9	15	(59)	(54)	(9)	15
NP (contr. int.)	81	61	59	41	74	50	101	81	132	168	242	306
(YoY Growth)	130.5	71.6	(14.5)	45.3	(8.1)	(17.5)	72.2	95.3	(13.7)	26.6	44.2	26.7

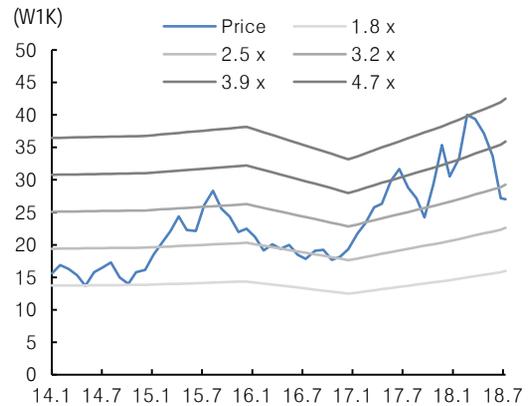
Source: Mode Tour, Daishin Securities Research Center estimates

Fig 9. Mode Tour 12MF P/E band



Source: Mode Tour, Wisefn, Daishin Securities Research Center

Fig 10. Mode Tour 12MF P/B band



Source: Mode Tour, Wisefn, Daishin Securities Research Center

## Per share intrinsic value

Residual Income Model		(Wbn, W, %)									
		2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
I	NP (contr. int.) <sup>(Note 2)</sup>	31	37	44	50	56	61	66	70	74	77
II	Shareholders' equity (contr. int.) <sup>(Note 2)</sup>	157	184	217	254	294	346	403	462	525	591
	Estimated ROE	21.0	21.5	22.0	21.2	20.3	19.2	17.7	16.2	14.9	13.9
III	Required rate of return <sup>(Note 3)</sup>	5.5									
	Risk free rate of return <sup>(Note 4)</sup>	2.3									
	Market risk premium <sup>(Note 5)</sup>	4.0									
	Beta	0.80									
IV	Spread (estimated ROE – required rate of return)	15.5	16.0	16.5	15.7	14.8	13.7	12.2	10.7	9.4	8.4
V	Required income	7	9	10	12	14	16	19	22	25	29
VI	Residual income (I - V)	23	28	34	38	42	45	47	48	48	49
	Present value factor	0.98	0.93	0.88	0.83	0.79	0.75	0.71	0.67	0.64	0.60
	PV of residual income	23	26	30	32	33	34	33	32	31	29
VII	Sum of residual income	303									
VIII	PV of residual income following forecasting period	442									
	Terminal growth (g) <sup>(Note 6)</sup>	0.0%									
IX	Beginning shareholders' equity	135									
X	Fair market cap (VII+VIII+IX)	879									
	Total number of shares (thousands)	18,900									
XI	<b>Per share value (W)</b>	<b>46,532</b>									
	Current share price (W)	27,050									
	Potential (%)	72.0%									

Note 1: Under the residual income model (RIM), we add the current shareholders' equity to the residual income based on the earnings forecast for the next ten years before adding the result to the residual income after the forecasting period to derive the value of shareholders' stakes. The RIM is considered less subjective than similar valuation models such as DDM, DCF, and EVA.

Note 2: The RIM reflects consolidated subsidiaries' earnings not in their entirety but only for the stake controlled by the company.

Note 3: The required rate of return (i.e., cost of equity) is the rate of return expected by the shareholders who take risks. It is derived by the capital asset price model: Cost of equity = Risk-free interest rate + Beta \* Market risk premium.

Note 4: The yield on five-year government bonds was used as the proxy for the risk-free interest rate.

Note 5: Market risk premium refers to the gap between the expected return on the market portfolio and the risk-free interest rate. It has been lowered from 6-8% to 3-5% in reflection of the current low-growth environment.

Note 6: The terminal growth was assumed to be zero.

## Financial statements

Income statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Sales	237	291	396	435	499
Cost of goods sold	11	11	73	64	72
Gross profit	226	280	323	370	427
S&A expenses	206	248	284	323	370
OP	20	32	39	47	57
OP margin	8.5	11.0	9.8	10.8	11.5
EBITDA	23	35	41	49	59
Non-OP	3	1	2	2	2
Income from affiliates	2	3	2	2	2
Financial revenue	2	1	1	1	1
FX related gains	1	1	1	1	1
Financial expense	0	-1	-1	-1	-1
FX related losses	0	0	0	0	0
Others	-1	-3	-1	-1	-1
Income before taxes	23	33	41	49	59
Income tax expense	-7	-9	-10	-12	-15
Income from cont. op.	16	24	31	37	44
Income from discount. op.	0	0	0	0	0
NP	16	24	31	37	44
NP margin	6.7	8.3	7.7	8.4	8.9
NP for non-contr. interest	-1	0	0	0	0
NP for contr. interest	17	24	31	37	44
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	16	24	30	36	44
Comp. income for non-contr. int.	-1	0	0	0	0
Comp. income for contr. int.	16	24	30	36	44

Valuation metrics	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
EPS	1,330	1,279	1,621	1,942	2,339
PER	21.8	23.8	16.7	13.9	11.6
BPS	8,207	7,134	8,321	9,736	11,500
PBR	3.5	4.3	3.3	2.8	2.4
EBITDAPS	1,820	1,860	2,177	2,607	3,142
EVEBITDA	11.7	14.4	10.7	8.6	6.8
SPS	18,816	15,394	20,953	23,004	26,390
PSR	1.5	2.0	1.3	1.2	1.0
CFPS	1,993	1,859	2,148	2,578	3,114
DPS	600	450	550	600	750

Financial ratios	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
<b>Growth potential</b>					
Sales growth	16.0	22.7	36.1	9.8	14.7
OP growth	22.3	59.6	20.2	21.6	21.9
NP growth	23.8	52.4	26.5	19.9	21.0
<b>Profitability</b>					
ROIC	48.5	83.8	84.8	80.3	84.9
ROA	10.2	11.7	11.0	12.4	13.9
ROE	16.5	20.3	21.0	21.5	22.0
<b>Stability</b>					
Debt ratio	104.9	107.5	96.3	85.3	74.6
Net borrowings ratio	-92.5	-60.8	-54.5	-55.2	-55.3
Interest coverage ratio	46.2	66.1	73.0	84.9	99.2

Source: Mode Tour, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Current assets	151	209	230	254	284
Cash & cash equiv.	58	53	59	77	98
Trade & other receive.	39	45	61	66	76
Inventories	0	0	0	0	0
Other current assets	54	110	110	110	110
Long-term assets	59	130	134	139	145
Tangible assets	22	23	22	21	20
Investments in affiliates	21	8	14	20	26
Other long-term assets	17	99	99	98	98
Total assets	210	338	364	393	429
Current liabilities	103	142	143	142	142
Payables & other liab.	59	67	67	67	67
Borrowings	0	14	14	13	13
Current portion of LT debts	1	1	2	2	2
Other current liabilities	43	60	60	60	60
Long-term liabilities	5	33	36	39	42
Borrowings	2	30	33	36	38
Convertible securities	0	0	0	0	0
Other long-term liab.	2	3	3	3	3
Total liabilities	108	175	179	181	183
Controlling interest	103	135	157	184	217
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	137	164	197
Other capital changes	-28	-19	-19	-19	-19
Non-controlling interest	-1	28	28	28	28
Total shareholder's equity	103	163	185	212	246
Net borrowings	-95	-99	-101	-117	-136

Cash flow statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	32	38	30	46	49
NP	16	24	31	37	44
Non-cash items	9	11	10	12	14
Depreciation	3	3	3	2	2
FX gains	-1	2	0	0	0
Equity method gain	0	0	0	0	0
Others	7	6	7	9	12
Chg in assets & liab.	12	12	-2	8	4
Other cash flows	-5	-9	-9	-11	-14
Investing cash flow	-6	-54	-8	-8	-8
Investment assets	7	-13	-6	-6	-6
Tangible assets	-1	-1	-1	-1	-1
Others	-12	-39	0	0	0
Financing cash flows	-12	11	-5	-8	-9
Short-term borrowings	0	0	0	0	0
Bonds payable	0	-2	-2	-2	-2
Long-term borrowings	1	5	5	5	5
Rights offering	0	0	0	0	0
Cash dividends	-5	-7	-8	-10	-11
Others	-9	16	1	0	0
Net chg in cash	14	-5	6	18	21
Beginning cash balance	45	58	53	59	77
Ending cash balance	58	53	59	77	98
NOPLAT	14	24	29	35	43
FCF	15	25	30	36	44

## [Compliance Notice]

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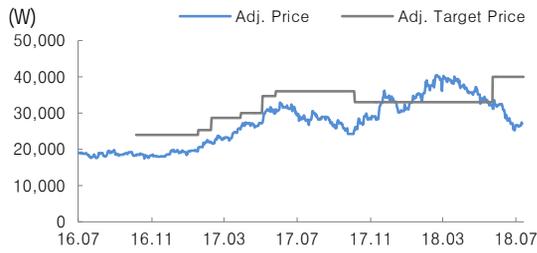
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[Investment rating & Target price history]

Mode Tour (080160 KQ)



Date	18.07.18	18.07.03	18.05.29	18.04.11	17.10.11	17.07.11
Rating	Buy	Buy	Buy	6개월 경과	Buy	Buy
Target price	40,000	40,000	40,000	33,000	33,000	36,000
Diff. (avr. %)		(27.90)	(25.26)	4.66	3.39	(22.68)
Diff. (max/min, %)		(15.88)	(15.88)	(5.45)	22.58	(15.28)
Date	17.06.02	17.06.01	17.05.10	17.05.02	17.04.20	17.04.04
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	36,019	36,019	34,685	30,016	30,016	30,016
Diff. (avr. %)	(13.56)		(12.24)	(10.53)	(10.62)	(10.13)
Diff. (max/min, %)	(8.70)		(8.94)	(8.67)	(8.67)	(8.67)
Date	17.03.14	17.03.03	17.02.15	17.02.14	17.01.24	17.01.23
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	28,682	28,682	28,682	28,682	25,346	25,346
Diff. (avr. %)	(18.18)	(20.34)	(20.98)		(14.52)	
Diff. (max/min, %)	(10.12)	(17.33)	(17.33)		(11.05)	
Date	17.01.17	17.01.09	16.12.23	16.12.08	16.11.21	16.11.02
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	24,012	24,012	24,012	24,012	24,012	24,012
Diff. (avr. %)	(34.66)	(34.84)	(35.14)	(35.53)	(28.05)	(28.14)
Diff. (max/min, %)	(17.50)	(17.50)	(17.50)	(17.50)	(21.67)	(21.67)

Investment rating breakdown and framework (Jul 15, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	82.1%	16.3%	1.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.