

Mode Tour (080160 KQ)

Kim Soo-min

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Rating **BUY**
maintain

6M TP (₩) **35,000**
reduce

CP (₩)
(18.08.01) **26,050**

Leisure

Standing at a crossroads

BUY maintained; 6M TP cut 13% to ₩35,000

- We are lowering our target price for Mode Tour by 13% to ₩35,000 in view of the downgraded annual earnings forecast and the current share price gap. The new target price is derived by applying the target P/E of 22x to the 12-month forward EPS of ₩1,575. Our residual income model values Mode Tour at ₩37,000 per share.

Business volume protection vs. cost control

- On a consolidated basis, 2Q18 sales and OP fell 0.8% and 45.6% yoy, respectively, to ₩83.4bn and ₩4.0bn. OP plunged, missing our estimate (₩6.1bn) and the consensus (₩7.0bn). The major detractors were domestic and overseas events and unfavorable operating conditions (such as natural disasters in major travel destinations, rising oil prices, and weaker won), which forced the company to spend more than planned in order to maintain its business volume.

- In 2Q18, Mode Tour's standalone package customers grew 13.2% yoy to 380,000, in line with the market growth rate (up 13.0% yoy), but its ASP dropped 6.0% yoy, while deposits grew only 6.4% yoy. Furthermore, advertising expenses increased 42.9% yoy as the company tried to lift the low demand, while other expenses (such as airplane ticket related promotions) climbed 21.3% yoy. Mode Tour's standalone sales and OP decreased 3.8% and 41.3% yoy, respectively, to ₩70.4bn and ₩4.6bn.

- Subsidiaries incurred a combined operating loss of ₩0.6bn (up 16.4% yoy). The newly included REITs arm (4Q17) and the Japanese subsidiary (1Q18) added ₩0.8bn to the subsidiaries' combined OP, whereas Jau Tour and Mode Stay's operating loss increased to ₩0.8bn and ₩0.4bn, respectively. Jau Tour saw its package tourists increase by 21.1%, but its expenses grew even faster. Mode Stay opened STAZ Ulsan in March 2018.

Mode Tour's customer data for July 2018

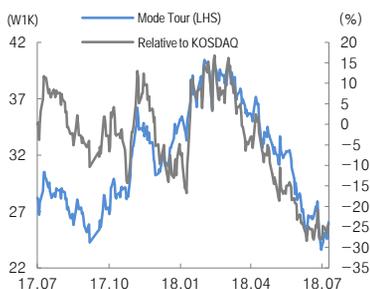
- Mode Tour's overall and package customers contracted 10.0% and 6.9% yoy, respectively, to 217,000 and 110,000 in July 2018.

- China-bound tourists increased 4.7%, while those heading to Southeast Asia (-6.1%), Japan (-13.0%), Europe (-2.4%), the South Pacific (-19.1%), and the Americas (-23.0%) decreased.

- The drop in customers travelling to Japan owes to: 1) high yoy comparison base (+45.4% yoy in 2Q17) and 2) a series of extreme weather conditions (such as floods and heat waves), which dampened travel demand.

- Investors should keep a close eye on whether and how the dampened demand will recover. That said, 2H18 OP is forecast to rise 26.3% yoy as the demand for corporate incentive trip (which is sensitive to price changes) recovers in 4Q18, appropriate cost controls are maintained, major subsidiaries' earnings improve, and new overseas subsidiaries are added.

KOSDAQ	790.25
Market cap (₩bn)	492
Market cap portion (%)	0.19
Paid-in capital (common; ₩bn)	9
52w high/low (₩)	40,450 / 23,600
120d avg. trading volume (₩bn)	5.7
Foreign ownership (%)	41.84
Major shareholders	Woo Jong-yong+13: 15.41% National Pension Service: 5.27%
(%)	1M 3M 6M 12M
Abs. return	-4.2 -29.9 -25.5 -14.6
Rel. return	-0.8 -22.3 -14.3 -29.4



(Wbn, %)

	2Q17	1Q18	2Q18					3Q18		
			Previous estimate	Result	YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Sales	67	110	84	83	24.0	-24.0	92	89	22.9	7.1
OP	7	9	6	4	-45.6	-56.3	7	8	-4.4	95.2
NP	6	8	5	3	-50.4	-62.1	6	6	8.5	110.3

	2016	2017	2018(F)				Growth	
			Previous estimate	Daishin estimate	Chg	Consensus	2017	2018(F)
Sales	237	291	396	382	-3.6	418	22.7	31.2
OP	20	32	39	31	-20.9	37	59.6	-5.0
NP	17	24	31	25	-19.9	29	44.2	1.4

Source: Mode Tour, WISEfn, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Sales	237	291	382	409	460
OP	20	32	31	41	47
Pretax profit	23	33	32	43	49
NP (contr. int.)	17	24	25	32	37
EPS	1,330	1,279	1,298	1,714	1,957
PER	21.8	23.8	20.1	15.2	13.3
BPS	8,207	7,134	7,998	9,185	10,567
PBR	3.5	4.3	3.3	2.8	2.5
ROE	16.5	20.3	17.2	19.9	19.8

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

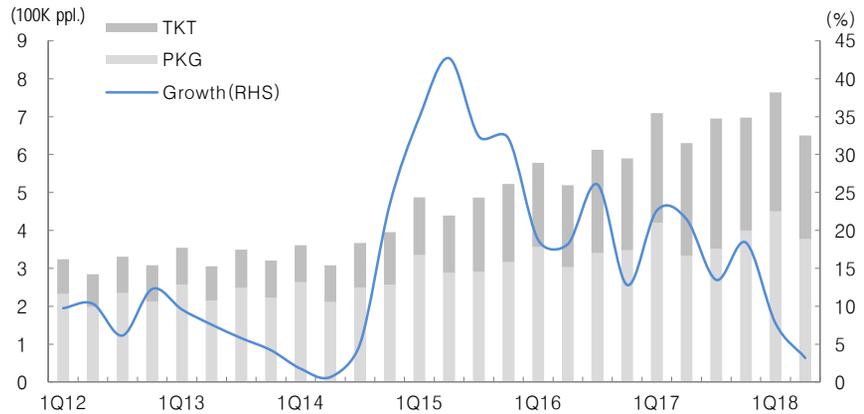
Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Sales	396	435	382	409	-3.6	-5.9
Selling & adm. expense	284	323	281	313	-1.2	-3.2
OP	39	47	31	41	-20.9	-13.5
OP margin	9.8	10.8	8.0	9.9	-1.8	-0.9
Non-operating profit	2	2	2	2	-5.4	0.0
Pretax profit	41	49	32	43	-20.2	-12.9
NP (controlling int.)	31	37	25	32	-19.9	-11.7
NP margin	7.7	8.4	6.4	7.9	-1.3	-0.5
EPS (controlling int.)	1,621	1,942	1,298	1,714	-19.9	-11.7

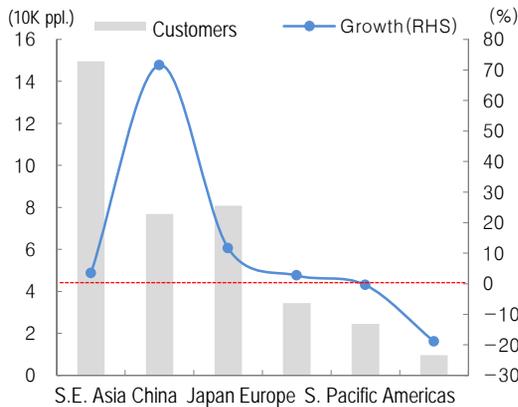
Source: Mode Tour, Daishin Securities Research Center

Fig 1. Mode Tour's overall and package tourists rise 3.2% and 13.2% yoy, respectively, in 2Q18



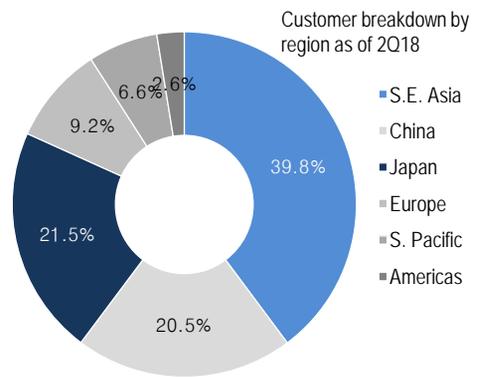
Source: Mode Tour, Daishin Securities Research Center

Fig 2. Mode Tour's 2Q18 customer growth by region



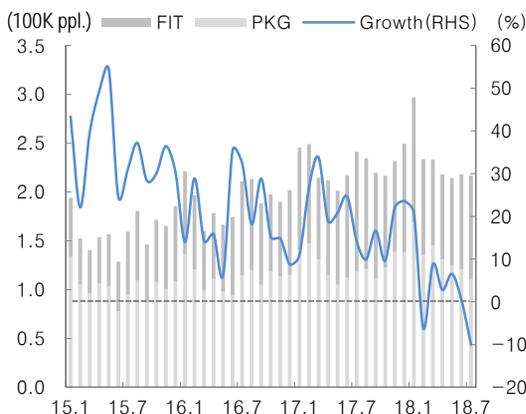
Source: Mode Tour, Daishin Securities Research Center

Fig 3. Mode Tour's 2Q customer breakdown by region



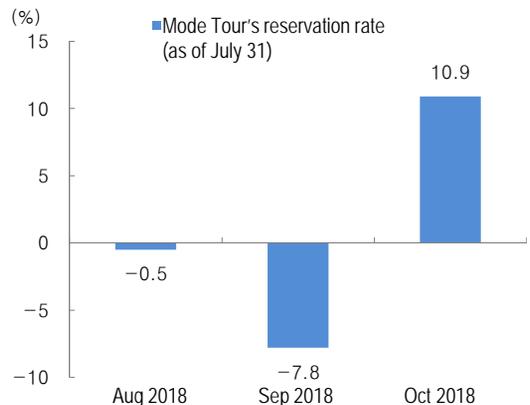
Source: Mode Tour, Daishin Securities Research Center

Fig 4. Mode Tour's monthly customer growth (yoy)



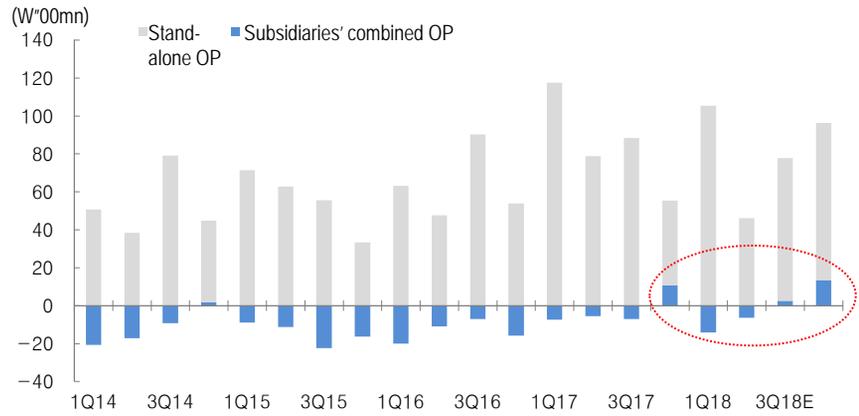
Source: Mode Tour, Daishin Securities Research Center

Fig 5. Mode Tour's reservation rate for next 3 months



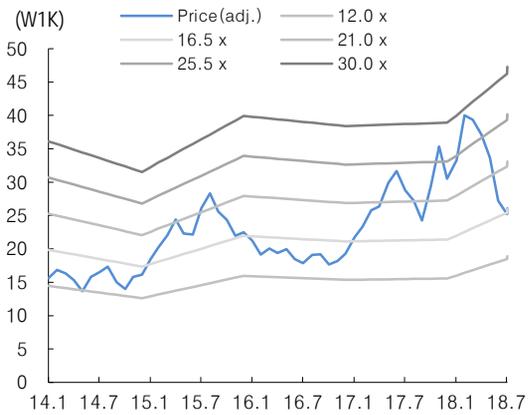
Note: As of July 31, 2018
Source: Mode Tour, Daishin Securities Research Center

Fig 6. Mode Tour standalone OP vs. Subsidiaries' combined OP



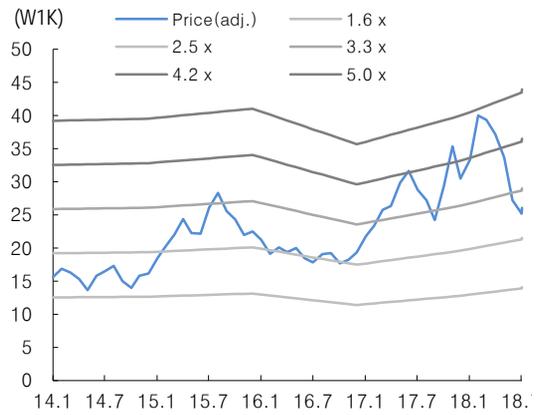
Source: Mode Tour, Daishin Securities Research Center estimates

Fig 7. Mode Tour 12MF P/E band



Source: Mode Tour, Wisefn, Daishin Securities Research Center

Fig 8. 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.) ^(Note 2)	25	32	37	42	43	47	51	54	57	59
II	Shareholders' equity (contr. int.) ^(Note 2)	151	174	200	228	255	295	338	384	432	483
	Estimated ROE	17.2	19.9	19.8	19.4	17.7	17.1	16.1	14.9	13.9	13.0
III	Required rate of return ^(Note 3)	5.5									
	Risk free rate of return ^(Note 4)	2.3									
	Market risk premium ^(Note 5)	4.0									
	Beta	0.80									
IV	Spread (estimated ROE – required rate of return)	11.7	14.4	14.3	13.9	12.2	11.6	10.6	9.4	8.4	7.5
V	Required income	7	8	10	11	13	14	16	19	21	24
VI	Residual income (I - V)	17	24	27	31	30	33	35	35	35	36
	Present value factor	0.98	0.93	0.88	0.84	0.79	0.75	0.71	0.67	0.64	0.61
	PV of residual income	17	22	24	26	24	25	25	24	23	22
VII	Sum of residual income	231									
VIII	PV of residual income following forecasting period	335									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	135									
X	Fair market cap (VII+VIII+IX)	700									
	Total number of shares (thousands)	18,900									
XI	Per share value (W)	37,035									
	Current share price (W)	26,050									
	Potential (%)	42.2%									

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	382	409	460
Cost of goods sold	11	11	70	55	61
Gross profit	226	280	311	354	400
S&A expenses	206	248	281	313	353
OP	20	32	31	41	47
OP margin	8.5	11.0	8.0	9.9	10.2
EBITDA	23	35	33	43	49
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	32	43	49
Income tax expense	-7	-9	-8	-11	-12
Income from cont. op.	16	24	24	32	37
Income from discount. op.	0	0	0	0	0
NP	16	24	24	32	37
NP margin	6.7	8.3	6.4	7.8	8.0
NP for non-contr. interest	-1	0	0	0	0
NP for contr. interest	17	24	25	32	37
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	16	24	24	32	36
Comp. income for non-contr. int.	-1	0	0	0	0
Comp. income for contr. int.	16	24	24	32	37

Valuation metrics	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
EPS	1,330	1,279	1,298	1,714	1,957
PER	21.8	23.8	20.1	15.2	13.3
BPS	8,207	7,134	7,998	9,185	10,567
PBR	3.5	4.3	3.3	2.8	2.5
EBITDAPS	1,820	1,860	1,749	2,272	2,595
EV/EBITDA	11.7	14.4	12.8	9.5	8.1
SPS	18,816	15,394	20,192	21,649	24,357
PSR	1.5	2.0	1.3	1.2	1.1
CFPS	1,993	1,859	1,714	2,243	2,567
DPS	600	450	550	600	750

Financial ratios	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	16.0	22.7	31.2	7.2	12.5
OP growth	22.3	59.6	-5.0	33.1	15.4
NP growth	23.8	52.4	0.7	31.2	14.7
Profitability					
ROIC	48.5	83.8	69.0	74.5	76.7
ROA	10.2	11.7	8.8	11.0	11.8
ROE	16.5	20.3	17.2	19.9	19.8
Stability					
Debt ratio	104.9	107.5	99.6	89.7	80.4
Net borrowings ratio	-92.5	-60.8	-54.2	-54.7	-54.3
Interest coverage ratio	46.2	66.1	57.7	73.5	81.2

Source: Mode Tour, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Current assets	151	209	224	243	266
Cash & cash equiv.	58	53	55	70	86
Trade & other receive.	39	45	58	63	70
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	358	383	411
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	151	174	200
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	131	154	180
Other capital changes	-28	-19	-19	-19	-19
Non-controlling interest	-1	28	28	28	28
Total shareholder's equity	103	163	179	202	228
Net borrowings	-95	-99	-97	-110	-124

Cash flow statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	32	38	26	42	43
NP	16	24	24	32	37
Non-cash items	9	11	8	10	12
Depreciation	3	3	3	2	2
FX gains	-1	2	0	0	0
Equity method gain	0	0	0	0	0
Others	7	6	5	8	9
Chg in assets & liab.	12	12	0	10	6
Other cash flows	-5	-9	-7	-10	-11
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	2	16	16
Beginning cash balance	45	58	53	55	70
Ending cash balance	58	53	55	70	86
NOPLAT	14	24	23	30	35
FCF	15	25	24	31	36

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[Investment rating & Target price history]

Mode Tour (080160 KQ)



Date	18.08.03	18.05.29	18.04.11	17.10.11	17.07.11	17.06.01
Rating	Buy	Buy	6M passed	Buy	Buy	Buy
Target price	35,000	40,000	33,000	33,000	36,000	36,019
Diff. (avr. %)		(30.19)	4.66	3.39	(22.68)	(13.56)
Diff. (max/min, %)		(15.88)	(5.45)	22.58	(15.28)	(8.70)
Date	17.05.10	17.04.04	17.02.14	17.01.23	16.10.11	
Rating	Buy	Buy	Buy	Buy	Buy	
Target price	34,685	30,016	28,682	25,346	24,012	
Diff. (avr. %)	(12.24)	(10.53)	(18.18)	(14.52)	(21.95)	
Diff. (max/min, %)	(8.94)	(8.67)	(10.12)	(11.05)	(17.50)	
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min, %)						

Investment rating breakdown and framework (Jul 31, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	82.3%	16.1%	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.