Yuanta Securities (Korea)

Company Report
Aug 8, 2018

Modetour Network (080160 KS)

Hotel/leisure

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Rating	BUY (M)
Target price	W29,000 (D)
Current price (Aug 1)	W26,050
Upside potential	11%

Market cap (Wbn)	492
Shares outstanding	18,900,000
Avg daily T/O (2M, Wbn)	5
Avg daily volume (2M, shrs)	180,324
52-week high (won)	40,450
52-week low (won)	23,600
Foreign ownership (%)	41.8
Major shareholders (%)	
Jong-ung Woo & others	15.4

Stock performance

(%)	1M	3M	12M
Absolute	(4.2)	(29.9)	(14.6)
Relative	(0.8)	(22.3)	(29.4)
Abs (US$)	(4.7)	(33.2)	(14.5)

Unfavorable conditions weigh on profit

2Q18 review: Unfriendly market conditions weigh heavily on profit

- Modetour Network posted 2Q18 consolidated sales of W83.4bn (-1% YoY), OP of W4.0bn (-46% YoY), and NP of W3.0bn (-51% YoY). OP was far short of consensus by about 40%.

- **Parent gross profit came to W59.3bn (3% YoY) and OP W4.6bn (-42% YoY).** 1) Overseas package tour sales grew to 380,000 people (+13% YoY), while package tour ASP declined to W862,000 (-6% YoY). 2) Package tour sales conversion rate likely declined YoY from 15.7% to 15.4% in 2Q18. 3) There seems to have been no major operating expense items. Macro conditions, including consumption, forex rates, and oil prices were unfavorable and coincided with the June regional elections. This resulted in slow gross profit growth and a significant drop in profit.

- Consolidated subsidiaries combined posted 2Q18 sales of W13.0bn (+30% YoY) and combined operating loss was flat YoY at W600mn (RR YoY). **Modetour REITs OP came to W500mn and Modetour Japan W200mn, while Jau Tour posted an operating loss of W800mn and Mode Stay W400mn.** ▶ Jau Tour: Growth in the number of group package tourists at Jau Tour slowed to 21% YoY, or 50,000 people. Sales grew 22% YoY to W6.6bn, but actual sales were likely flat or declined YoY given the impact of the IFRS No. 1115 application. Due to unfavorable conditions, Jau Tour is likely hoping to simply break even in 2H18.

- **Revise down target price Although we maintain BUY, we revise down our target price from W44,000 to W29,000**, implying 2019E EPS of W1,805 and a P/E of 16x. Our target P/E of 16x is the median of the firm's 12-month-forward P/E band (consensus basis).

- The number of group package tourists fell 7% YoY to 110,000 people in July, while reservation rate declined 1% for August and 8% for September, which makes a YoY drop in 3Q18 group package tourists more likely. Given macro indicators and reservation rates, consolidated OP will likely decline YoY for 3Q18 and again in 4Q18 in real terms if we exclude a one-off expense of W6.5bn the firm booked in 4Q17.

- Since May 2018, Modetour shares have fallen about 30%. Unless market conditions turn positive soon, we will likely revise 2019E earnings estimates for the firm. **We advise investors to take a conservative approach to the company.**

Quarterly earnings

(Wbn)	2Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	83	24.0	-24.0	92	-9.5
OP	4	-45.6	-56.3	7	-43.1
Pre-tax net profit	4	-48.2	-54.7	8	-45.7
Net profit, CI	3	-51.9	-63.2	6	-49.7
OPM (%)	4.8	-6.1 %pt	-3.5 %pt	7.6	-2.8 %pt
NPM (%)	3.5	-5.6 %pt	-3.8 %pt	6.3	-2.8 %pt

Source: Yuanta Securities

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

FY ends Dec	2016A	2017A	2018E	2019E
Sales	237	291	399	461
OP	20	32	29	45
Net profit, CI	17	24	23	34
P/E (x)	32.5	26.0	21.5	14.4
P/B (x)	5.3	4.7	3.1	2.7
EV/EBITDA	11.7	12.3	12.6	8.5
ROE (%)	16.5	20.3	16.0	21.0

Source: Yuanta Securities

2Q18 consolidated OP W4.0bn (-46% YoY) (Wbn)

	2016				2017				2018				Full-year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QP	3QE	4QE	2017	2018E	2019E
Consolidated sales	59.5	54.3	64.2	59.1	74.0	67.3	72.7	77.0	109.8	83.4	103.0	102.8	290.9	399.1	460.8
Parent	53.1	46.4	55.7	50.7	64.3	57.3	62.5	65.2	94.3	70.4	84.3	82.8	249.3	331.8	377.4
Subsidiaries	6.4	7.9	8.5	8.4	9.7	10.0	10.2	11.7	15.5	13.0	18.7	20.0	41.6	67.2	83.4
Modetour International	0.7	0.5	0.4	0.5	0.4	0.3	0.4	0.4	-	-	0.1	0.1	1.5	0.3	0.3
Jau Tour	2.5	2.8	3.9	3.7	5.5	5.4	5.8	6.2	11.1	6.6	11.3	11.9	22.8	40.9	51.1
Cruise International	-	0.1	0.1	-	-	0.1	0.1	0.1	-	0.1	0.1	0.1	0.2	0.2	0.2
Mode Dev of Tourism	0.6	0.7	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.6	0.5	0.5	2.3	2.0	2.0
Modetour REITs	-	-	-	-	-	-	-	1.0	1.1	1.1	1.1	1.1	1.0	4.4	4.4
Seoul Hotel & Tourism Vocational College	0.5	1.4	0.7	1.0	0.4	1.2	0.7	1.0	0.4	0.9	0.7	1.0	3.3	2.9	2.9
Mode Stay	2.3	2.8	2.9	3.1	2.7	2.6	2.9	3.5	2.8	4.0	3.8	4.1	11.7	14.6	16.1
Danang Hotel	-	-	-	-	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.6	1.7	1.7
Modetour Japan	-	-	-	-	-	-	-	-	0.8	0.8	0.8	0.8	-	3.1	4.6
Consolidated operating profit	4.5	3.7	8.3	3.8	11.0	7.4	8.1	5.5	9.1	4.0	7.7	8.2	32.1	29.1	45.0
Parent	6.5	4.8	9.0	5.4	11.9	7.9	8.8	4.5	10.5	4.6	7.5	6.9	33.1	29.6	41.1
Subsidiaries	-2.0	-1.1	-0.7	-1.6	-0.9	-0.5	-0.7	1.1	-1.4	-0.6	0.2	1.3	-1.0	-0.5	3.8
Modetour International	-	-0.2	-0.1	-	-0.1	-0.1	-0.1	-	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-0.4
Jau Tour	-1.0	-0.8	-0.3	-1.2	0.2	-0.2	-0.3	0.3	-0.5	-0.8	-0.2	0.2	-	-1.3	-0.3
Cruise International	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mode Dev of Tourism	-0.2	-	-	-	-0.1	-0.1	-0.2	-0.2	-0.3	-0.1	-0.1	-0.1	-0.5	-0.7	0.2
Modetour REITs	-	-	-	-	-	-	-	0.4	0.5	0.5	0.5	0.5	0.4	2.1	2.2
Seoul Hotel & Tourism Vocational College	-0.7	0.1	-0.4	-0.2	-0.6	0.1	-0.3	-0.1	-0.6	-0.1	-0.3	-0.1	-0.9	-1.1	-0.7
Mode Stay	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2	0.1	0.7	-0.6	-0.4	-	0.5	0.4	-0.5	0.5
Danang Hotel	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.4
Modetour Japan	-	-	-	-	-	-	-	-	0.3	0.2	0.3	0.3	-	1.2	1.8
Operating margin (%)	8	7	13	6	15	11	11	7	8	5	8	8	11	7	10
Parent	12	10	16	11	19	14	14	7	11	7	9	8	13	9	11
Subsidiaries	-31	-14	-8	-19	-9	-5	-7	9	-9	-5	1	7	-2	-1	5
Cons net profit, CI	3.9	3.6	6.9	3.0	8.1	6.0	6.3	6.5	7.4	3.0	5.8	6.2	24.2	22.4	34.1
Net margin (%)	7	7	11	5	11	9	9	8	7	4	6	6	9	6	7
Growth (% YoY)															
Cons sales	18	9	25	12	24	24	13	30	48	24	42	34	23	37	15
Cons operating profit	-28	-29	150	123	155	101	-2	45	-17	-46	-5	48	59	-9	55
Cons net profit	-31	-13	113	952	130	70	-7	127	-8	-51	-9	-5	52	-17	53
[Parent earnings assumption]															
[Traveler indicator]															
Mode package tourists ('000)	360	300	340	350	420	330	350	400	450	380	380	440	1,500	1,650	1,880
(% YoY)	6	5	17	10	18	10	3	15	7	13	7	11	12	9	14
Package ASP (W'000)	859	846	894	793	872	917	939	877	872	862	939	806	899	867	855
(% YoY)	-2	−3	3	-8	2	9	5	11	0	-6	0	-8	6	-4	-1
Sales conversion rate (package)	14.3	15.0	15.8	14.9	15.1	15.7	15.6	15.3	14.9	15.4	15.6	14.9	15.4	15.2	15.3
Parent gross profit	53.1	46.4	55.7	50.7	64.3	57.3	62.5	65.2	71.0	59.3	67.4	66.3	249.3	264.0	301.9
Commission from air ticket sales	4.4	3.4	3.6	4.0	3.4	3.7	3.7	4.8	5.0	3.5	4.6	6.0	15.7	19.0	23.9
Commission from package tour sales	43.8	38.3	48.2	41.2	55.1	48.0	51.7	53.5	58.5	50.1	55.3	53.4	208.3	217.3	246.5
Other	4.9	4.7	4.0	5.5	5.8	5.6	7.1	6.9	7.5	5.7	7.5	6.9	25.4	27.8	31.5
Parent SG&A	46.6	41.6	46.6	45.3	52.4	49.4	53.6	60.8	60.5	54.7	59.9	59.4	216.3	234.5	260.8
Salary and bonus	14.6	13.3	14.1	14.0	15.9	15.2	15.7	16.9	16.6	16.9	16.9	15.9	63.8	66.3	69.4
Ad & PR	3.6	3.5	3.1	4.0	3.7	4.0	4.4	7.9	7.0	5.7	4.8	5.0	20.0	22.5	23.7
Commissions paid	22.8	19.4	23.6	21.3	27.1	24.1	27.1	28.4	29.3	24.4	30.4	29.5	106.8	113.5	133.5
Other	5.5	5.4	5.8	5.9	5.7	6.1	6.3	7.6	7.6	7.7	7.8	9.1	25.7	32.2	34.2
Parent operating profit	6.5	4.8	9.0	5.4	11.9	7.9	8.8	4.5	10.5	4.6	7.5	6.9	33.1	29.6	41.1
Operating margin (%)	12	10	16	11	19	14	14	7	15	8	11	10	13	11	54

Note: Sales figures are based on new K-IFRS from 1Q18. 2017 figures are not changed. 2Q18 parent operating revenue breakdown and package sales conversion rate our estimates.
Source: Yuanta Securities

Jau Tour: quarterly earnings

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18P	2015	2016	2017
Package tour sales (people)	18,217	20,460	26,248	27,327	29,692	27,522	32,028	38,459	52,744	41,502	46,208	49,292	61,772	50,250	92,252	127,701	189,746
(% YoY)	28	66	62	89	63	35	22	41	78	51	44	28	17	21	61	38	49
Flight ticket sales (people)	4,208	5,712	5,781	8,844	8,677	10,538	10,613	20,232	39,183	60,154	56,755	51,899	62,648	83,812	24,545	50,060	207,991
(YoY)	21	65	32	121	106	84	84	129	352	471	435	157	60	39	60	104	316
Sales (Wbn)	1.8	1.7	2.0	2.3	2.5	2.8	3.9	3.7	5.5	5.4	5.8	6.2	11.1	6.6	7.9	12.9	22.9
Package tour	1.2	1.2	1.3	1.3	1.7	1.9	2.3	2.3	3.7	3.2	3.7	3.6	4.2	-	5.1	8.1	14.3
Flight tickets	0.1	0.1	0.1	0.2	0.2	0.3	-0.3	0.1	0.1	0.3	0.3	2.8	4.3	-	0.6	0.3	3.6
Lease	-	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-	0.2	0.2	0.1
Other	0.4	0.4	0.5	0.7	0.6	0.6	1.9	1.3	1.6	1.8	1.7	-0.3	2.5	-	2.0	4.4	4.9
SG&A (Wbn)	2.4	3.1	3.3	4.3	3.6	3.6	4.2	4.9	5.3	5.6	6.1	5.9	11.6	7.4	13.2	16.3	22.8
OP (Wbn)	-0.6	-1.4	-1.3	-2.1	-1.0	-0.8	-0.3	-1.2	0.2	-0.2	-0.3	0.3	-0.5	-0.8	-5.4	-3.3	0.1
Package tour sales growth (% YoY)	22	8	14	60	38	56	71	70	119	69	65	60	15	-	24	59	76

Note: Sales figures are based on new K-IFRS from 1Q18. 2017 figures are not changed.
Source: Yuanta Securities

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

Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Sales	**237**	**291**	**399**	**461**	**504**
Cost of sales	11	11	90	100	107
Gross profit	226	280	309	361	397
SG&A	206	248	280	316	339
Operating profit	**20**	**32**	**29**	**45**	**58**
EBITDA	23	35	33	49	62
Non-op profit/loss	3	1	1	0	0
Forex gain/loss	1	-3	0	0	0
Net interest income	1	1	1	1	1
Equity-meth gain/loss	2	3	0	0	0
Other	-1	-1	0	-1	-1
Net prof before income tax	23	33	30	44	58
Income tax	7	9	7	11	14
Net profit from continuing ops	16	24	23	34	44
Net profit from discontinued ops	0	0	0	0	0
Net profit	16	24	23	34	44
NP for controlling interest	**17**	**24**	**23**	**34**	**44**
Total comprehensive income	16	24	24	36	46
Total comprehensive income, CI	16	24	24	35	46

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

Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Current assets	**151**	**209**	**228**	**262**	**303**
Cash & cash equivalents	58	53	58	68	105
Accts rec & other	39	45	36	41	44
Inventory	0	0	12	13	15
Non-current assets	59	130	128	127	126
Tangible assets	22	23	22	22	21
Investment in affiliates	21	8	6	6	6
Other non-current	1	8	9	9	9
Total assets	**210**	**338**	**356**	**389**	**429**
Current liabilities	103	142	144	150	156
Accts payable & other	59	67	75	75	75
ST financial liabilities	0	14	11	17	23
Liquid LT liabilities	1	1	1	1	1
Non-current liabilities	5	33	33	33	33
LT financial liabilities	2	30	31	31	31
Debentures	0	0	0	0	0
Total liabilities	**108**	**175**	**177**	**183**	**189**
Equity, controlling interest	103	135	151	174	203
Paid-in capital	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	129	151	180
Equity, non-controlling interest	-1	28	28	32	37
Total equity	**103**	**163**	**179**	**206**	**240**
Net debt	**-93**	**-97**	**-105**	**-109**	**-140**
Total debt	7	47	45	51	57

Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
Operating cash flow	**32**	**38**	**46**	**53**	**65**
Net profit	16	24	23	34	44
Depreciation & amortization	2	2	3	3	4
Forex gain/loss	-1	2	0	0	0
Affiliate invest gain/loss	-1	0	0	0	0
Inc (dec) in net working cap	12	12	19	17	19
Other	4	-3	1	-1	-2
Investing cash flow	**-6**	**-54**	**-10**	**-11**	**-11**
Investment	7	-7	0	0	0
Inc in tangible assets	-1	-1	-2	-3	-3
Dec in tangible assets	0	0	0	0	0
Other	-12	-46	-7	-8	-8
Financing cash flow	**-12**	**11**	**-11**	**-6**	**-9**
Inc (dec) in ST fin liab	0	0	-3	6	6
Inc (dec) in LT fin liab	0	2	0	0	0
Inc (dec) in equity	0	0	0	0	0
Cash dividend	-5	-7	-8	-12	-15
Other	-8	16	0	0	0
Other cash flow	0	-1	-20	-26	-8
Inc (dec) in cash & equivalents	**14**	**-5**	**4**	**10**	**37**
Beginning cash & equivalents	45	58	53	58	68
Ending cash & equivalents	58	53	58	68	105
NOPLAT	20	32	**29**	**45**	**58**
FCF	**27**	**38**	**43**	**53**	**64**

Valuation

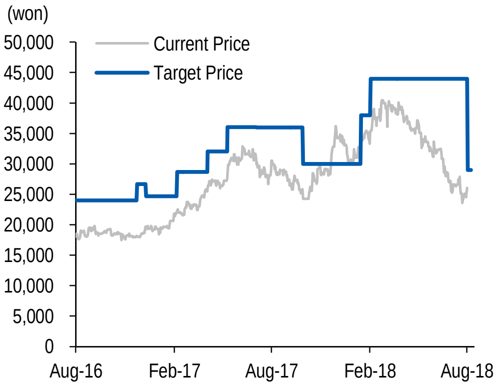
FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	887	1,279	1,209	1,805	2,334
BPS (won)	5,471	7,134	8,317	9,620	11,216
EBITDA/shr (won)	1,820	1,860	1,740	2,580	3,282
SPS (won)	12,544	15,394	21,115	24,383	26,692
DPS (won)	400	450	680	840	950
P/E (x)	**32.5**	**26.0**	**21.5**	**14.4**	**11.2**
P/B (x)	**5.3**	**4.7**	**3.1**	**2.7**	**2.3**
EV/EBITDA (x)	**11.7**	**12.3**	**12.6**	**8.5**	**6.3**
P/S (x)	**2.3**	**2.2**	**1.2**	**1.1**	**1.0**

Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
Sales (% YoY)	**16.0**	**22.7**	**37.2**	**15.5**	**9.5**
Operating profit (%YoY)	**22.3**	**59.6**	**-9.5**	**54.6**	**29.9**
Net profit, CI (%YoY)	**26.6**	**44.2**	**-5.5**	**49.3**	**29.3**
Gross margin (%)	95.3	96.2	77.6	78.3	78.8
Operating margin (%)	**8.5**	**11.0**	**7.3**	**9.8**	**11.6**
Net margin, CI (%)	7.1	8.3	5.7	7.4	8.7
EBITDA margin (%)	9.7	12.1	8.2	10.6	12.3
ROIC (%)	-85.8	-80.3	-66.8	-192.1	-963.5
ROA (%)	8.5	8.8	6.6	9.2	10.8
ROE (%)	**16.5**	**20.3**	**16.0**	**21.0**	**23.4**
Debt-to-equity (%)	104.9	107.5	99.0	88.9	78.7
Net debt-to-equity (%)	-90.0	-72.0	-69.5	-62.7	-68.8
OP/financing cost (x)	46.2	66.1	23.0	30.5	35.3

Note: CI = controlling interest
EPS, BPS, P/E and P/B are based on controlling interest
For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price
For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior
Source: Yuanta Securities

Modetour Network (080160 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2018/08/02	BUY	29,000	1 yr		
2018/02/02	BUY	44,000	1 yr	-23.55	-8.07
2018/01/15	BUY	38,000	1 yr	-8.94	-6.71
2017/09/29	BUY	30,000	1 yr	2.28	20.67
2017/07/18	Bonus offering	36,000		-	-
2017/07/04	BUY	36,000	1 yr	-19.58	-16.11
2017/05/11	BUY	36,019	1 yr	-13.49	-8.70
2017/04/04	BUY	32,017	1 yr	-16.04	-14.27
2017/02/06	BUY	28,682	1 yr	-18.94	-10.12
2016/12/10	BUY	24,679	1 yr	-19.86	-11.35

Note: Difference = (actual price* - target price) / target price x 100
* 1) The average price until the day target price was suggested
2) The highest (lowest) price until the day target price was suggested
Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.7
BUY	85.5
HOLD	12.8
SELL	0.0
Total	100.0

Note: As of Jul 31 Excluding reports written or published by overseas affiliates

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