

Mode Tour (080160 KQ)

Kim Soo-min

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Rating

BUY

maintain

6M TP (W)

35,000

maintain

CP (W)
(18.10.04)**23,500**

Leisure

Rough patch is almost over

BUY; TP reiterated at W35,000

- For Mode Tour, we suggest a target price of W35,000, which is based on the forward EPS of W1,476 and a target P/E of 22x.

3Q18 results to show weaker OP

- On a consolidated basis, Mode Tour is forecast to report W84.3bn in revenue (up 16% yoy) and W2.3bn in OP (down 72% yoy) for its latest quarter.

- As for the tour operator alone, OP is likely to drop 68% yoy to W2.8bn. Its standalone OP margin is forecast at 4%, down by 10% yoy.

- Outbound travel departures likely fell 6% yoy -- down 5% yoy in package tours and down 7% yoy in air ticket sales. Performance by region is as follows: Southeast Asia (-8%), Japan (-14%), South Pacific (-18%), Americas (-31%), China (+18%), Europe (+7%).
- Booking rate also fell, but the metric was relatively healthy compared to peers' thanks to the company's low exposure to the Japan business (21% as of 2017) that took a hit from a host of headwinds.
- ASP likely held up, down just 1% yoy. Fetching an even ASP across key regions (between W660,000 and W690,000 in China, Japan and Southeast Asia that together make up about 80% of its package tour business), the company is relatively well insulated from regional headwinds.
- Marketing expenses are forecast to have jumped 56% yoy due to the travel fair held in August that cost the company around W2bn. Despite the company's efforts to keep costs under control amid a difficult environment, marketing costs, which were up 65% yoy in 1H18, are likely to continue rising in the second half.

- Subsidiaries' combined OP is likely to fall by W600mn for the second quarter in a row, compared to the W1.4bn drop in 1Q18. We project a W100mn decline in combined OP for 4Q18.

- Low-cost subsidiary Jau Tour, which has high exposure to China (40%), did relatively well, with its package tour customers down just 4% yoy. A profit turnaround, however, is not expected until 4Q18.
- Mode Stay, a lodging unit, is also expected to swing to profit in 4Q18.
- Mode Japan, which became a consolidated subsidiary in 1Q18, looks set to deliver W800mn in OP annually. (Mode Tour plans to consolidate other overseas operations (Europe, etc.) in 2019.)

4Q18 outlook

- For the year-end quarter, the company is expected to post a 30% yoy increase in consolidated OP at W7.2bn, helped by a low base in the year-prior period that took a hit from its TV ad push (up 97% yoy).

* Despite a rise in package tour customers (up 15% yoy), 4Q17 OP slid 17% yoy to W4.5bn.

- Subsidiaries will likely narrow losses.

Stock performance

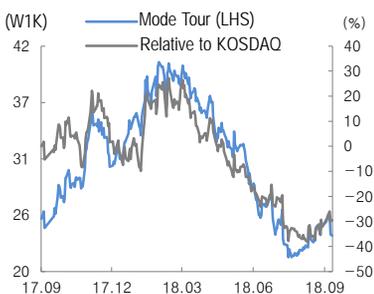
- Mode Tour stock rebounded 20% from its low recently, but part of that gain was wiped out (down 8%) following the company's release of its downbeat booking data. The metric, however, will recover sooner or later as travel demand is picking up after a turbulent period.

- Keep focus on Mode Tour's structural growth and earnings improvement at subsidiaries.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	789
Market cap (Wbn)	444
Market cap portion (%)	0.18
Paid-in capital (common; Wbn)	9
52w high/low (W)	40,450 / 21,400
120d avg. trading volume (Wbn)	5.7
Foreign ownership (%)	32.38
Major shareholders	Woo Jong-woong+15:15.45% JP Morgan Asset Management (UK) Limited+1:5.17%

(%)	1M	3M	6M	12M
Abs. return	-3.5	-6.9	-37.4	-3.1
Rel. return	1.2	-5.7	-31.6	-19.8



(Wbn, %)

	3Q17	2Q18	3Q18(F)					4Q18		
			Previous estimate	Daishin estimate	YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	73	83	84	84	16.0	1.1	88	95	23.4	12.6
OP	8	4	4	2	-72.3	-43.4	6	7	27.5	219.3
NP	6	3	5	4	-25.2	65.3	5	8	83.0	73.4

	2016	2017	2018(F)			Growth		
			Previous estimate	Daishin estimate	Chg	Consensus	2017	2018(F)
Revenue	237	291	377	373	-1.1	382	22.7	28.0
OP	20	32	29	23	-22.2	27	59.6	-29.8
NP	17	24	27	23	-17.4	22	44.2	-6.6

Source: Mode Tour, WISEfn, Daishin Securities Research Center

Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	237	291	373	406	442
OP	20	32	23	35	43
Pretax profit	23	33	30	37	45
NP	16	24	23	28	34
NP (contr. int.)	17	24	23	28	34
EPS	1,330	1,279	1,195	1,467	1,773
PER	21.8	23.8	19.7	16.0	13.3
BPS	8,207	7,134	7,895	8,936	10,187
PBR	3.5	4.3	3.0	2.6	2.3
ROE	16.5	20.3	15.9	17.4	18.5

Note: EPS, BPS, and ROE are based only on the controlling interest.

Source: Mode Tour, Daishin Securities Research Center

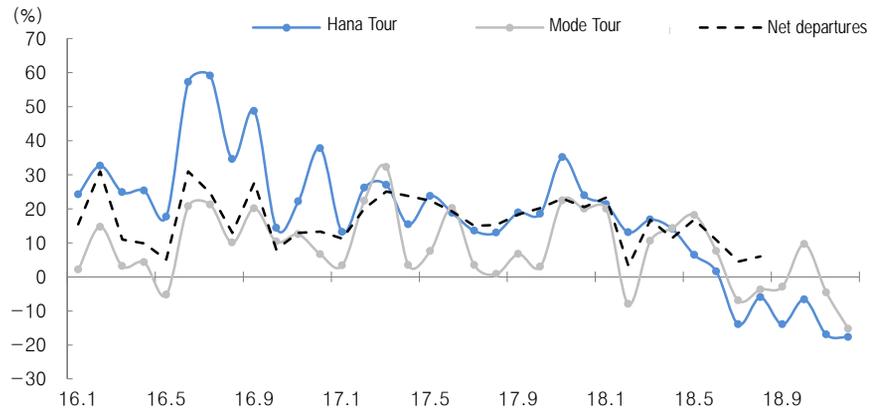
Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	377	404	373	406	-1.1	0.5
Selling & adm. expense	278	309	276	305	-0.7	-1.2
OP	29	41	23	35	-22.2	-13.9
OP margin	7.7	10.1	6.1	8.6	-1.6	-1.4
Non-operating profit	7	2	7	2	0.0	0.0
Pretax profit	36	43	30	37	-17.8	-13.3
NP (controlling int.)	27	32	23	28	-17.4	-13.1
NP margin	7.3	7.9	6.1	6.8	-1.2	-1.1
EPS (controlling int.)	1,447	1,688	1,195	1,467	-17.4	-13.1

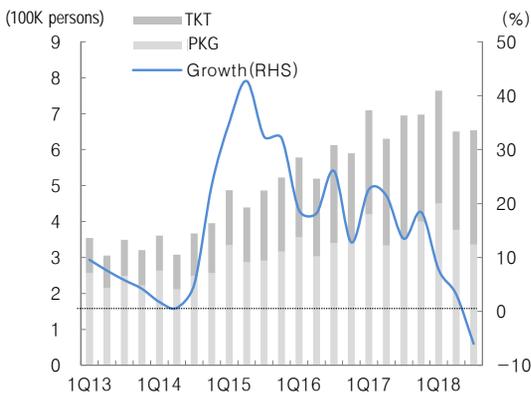
Source: Mode Tour, Daishin Securities Research Center

Fig 1. Package tourist departures



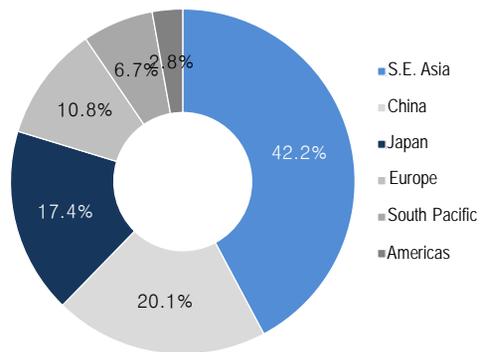
Note: Tourist departures+booking for the next three months
Source: Hana Tour, Mode Tour, Daishin Securities Research Center

Fig 2. Mode Tour's tourist customers



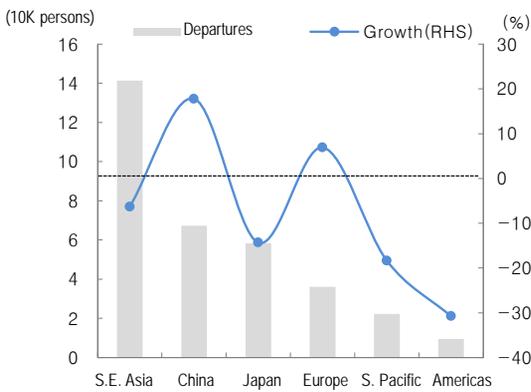
Source: Mode Tour, Daishin Securities Research Center

Fig 3. Package tour customer mix by region (3Q18)



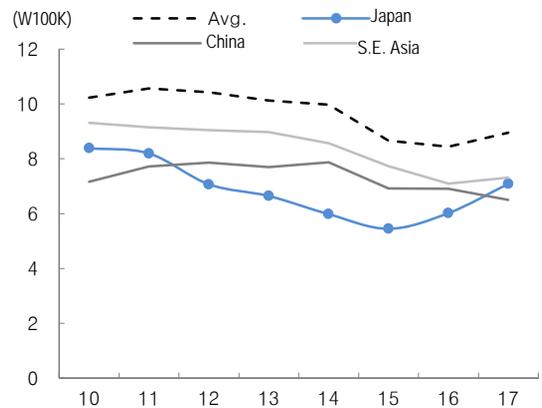
Source: Mode Tour, Daishin Securities Research Center

Fig 4. Customer growth by region



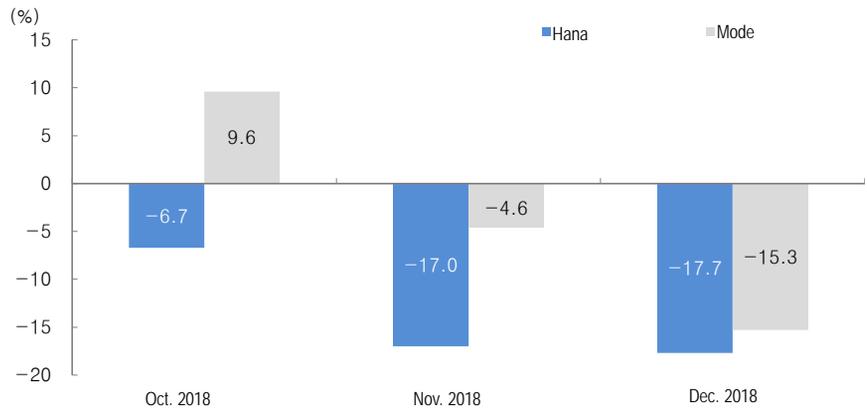
Source: Mode Tour, Daishin Securities Research Center

Fig 5. Package tour ASPs



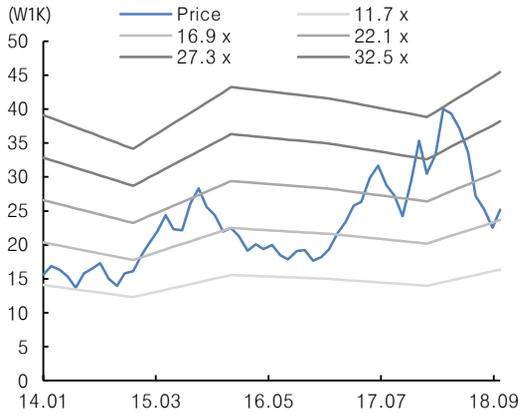
Source: Mode Tour, Daishin Securities Research Center

Fig 6. Booking rate for next 3 months



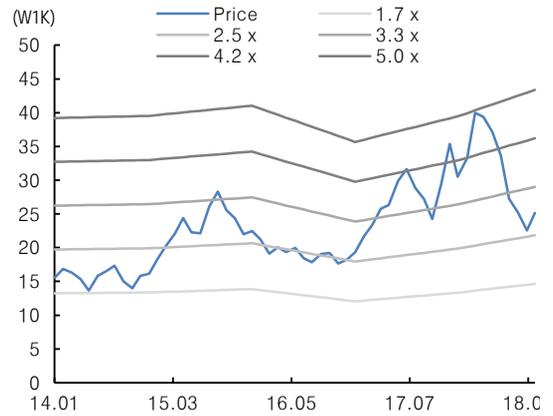
Source: Hana Tour, Mode Tour, Daishin Securities Research Center

Fig 7. 12MF P/E band



Source: Mode Tour, Daishin Securities Research Center

Fig 8. 12MF P/B band



Source: Mode Tour, Daishin Securities Research Center

Company profile

Overview

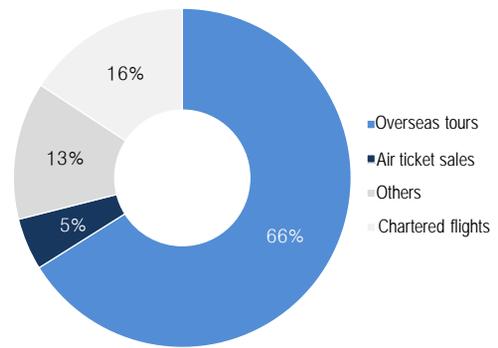
- Annual tourist departures (10K persons): 273 – PKG 150, TKT 123
- 2017 consolidated revenue (W'00mn) 2,909, OP 321, NP 242
- Non-consolidated revenue mix(17A): Overseas tours 84%, air ticket sales 6%, others 10%
- Package customer mix (17A): S.E. Asia 45%, Japan 21%, China 16%, Europe 8%, South Pacific 7%, Americas 3%

Stock catalysts and outlook

- Tourist departures, booking rates, etc.
- The stock is 40% off its high amid difficult conditions at home and abroad.
- Booking rates to recover meaning fully as tour demand, especially for nearby countries, picks up.

Source: Mode Tour, Daishin Securities Research Center

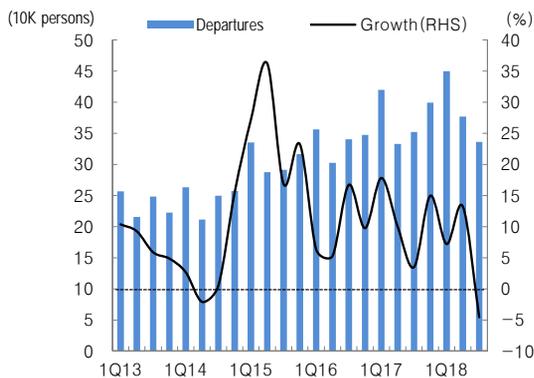
Revenue mix (2Q18)



Source: Mode Tour, Daishin Securities Research Center

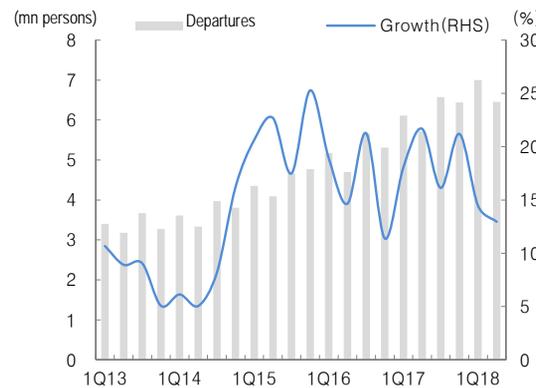
Earnings drivers

Fig 1. Package tourist departures (3Q18)



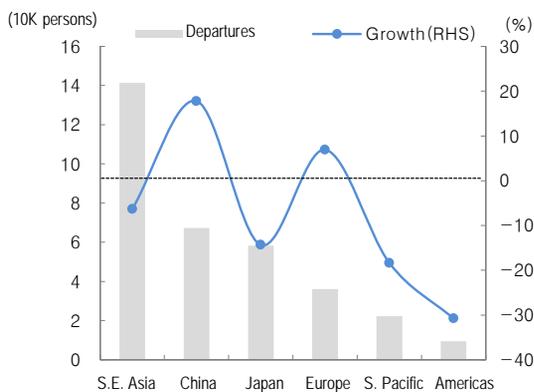
Source: Mode Tour, Daishin Securities Research Center

Fig 2. Korea's net outbound travelers (2Q18)



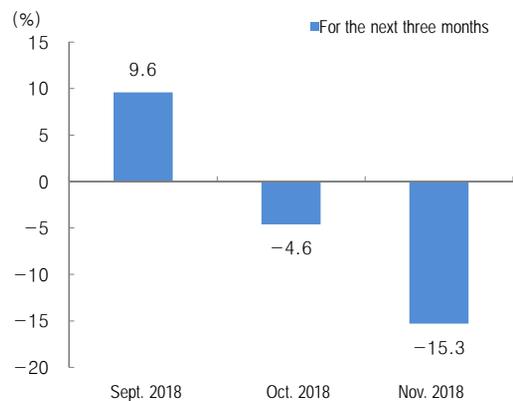
Source: Mode Tour, Daishin Securities Research Center

Fig 3. Tourist departure by region (3Q18)



Source: Mode Tour, Daishin Securities Research Center

Fig 4. Booking rate (as of Oct. 1)



Source: Mode Tour, 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)	23	28	34	37	38	42	45	48	50	53
II	Shareholders' equity (contr. int.) ^(Note 2)	149	169	193	218	242	278	316	357	399	444
	Estimated ROE	15.9	17.4	18.5	18.0	16.5	16.1	15.2	14.2	13.3	12.5
III	Required rate of return ^(Note 3)	5.3									
	Risk free rate of return ^(Note 4)	2.1									
	Market risk premium ^(Note 5)	4.0									
	Beta	0.80									
IV	Spread (estimated ROE – required rate of return)	10.6	12.1	13.2	12.7	11.2	10.8	9.9	8.9	8.0	7.2
V	Required income	7	8	9	10	12	13	15	17	19	21
VI	Residual income (I - V)	15	20	25	27	26	29	30	31	31	32
	Present value factor	0.99	0.94	0.89	0.85	0.81	0.77	0.73	0.69	0.66	0.62
	PV of residual income	15	19	22	23	21	22	22	21	20	20
VII	Sum of residual income	206									
VIII	PV of residual income following forecasting period	312									
	Terminal growth (g) ^(Note 6)	0.0%									
IX	Beginning shareholders' equity	135									
X	Fair market cap (VII+VIII+IX)	653									
	Total number of shares (1K)	18,900									
XI	Per share value (W)	34,529									
	Current share price (W)	23,500									
	Upside potential (%)	46.9%									

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
Revenue	237	291	373	406	442
Cost of goods sold	11	11	74	66	58
Gross profit	226	280	299	340	384
S&A expenses	206	248	276	305	341
OP	20	32	23	35	43
OP margin	8.5	11.0	6.1	8.6	9.7
EBITDA	23	35	25	37	45
Non-OP	3	1	7	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	5	-1	-1
Income before taxes	23	33	30	37	45
Income tax expense	-7	-9	-7	-9	-11
Income from cont. op.	16	24	23	28	34
Income from discount op.	0	0	0	0	0
NP	16	24	23	28	34
NP margin	6.7	8.3	6.1	6.8	7.6
NP for non-contr. interest	-1	0	0	0	0
NP for contr. interest	17	24	23	28	34
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	16	24	22	28	33
Comp. income for non-contr. int.	-1	0	0	0	0
Comp. income for contr. int.	16	24	22	27	33

Valuation metrics	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
EPS	1,330	1,279	1,195	1,467	1,773
PER	21.8	23.8	19.7	16.0	13.3
BPS	8,207	7,134	7,895	8,936	10,187
PBR	3.5	4.3	3.0	2.6	2.3
EBITDAPS	1,820	1,860	1,328	1,974	2,384
EVEBITDA	11.7	14.4	15.0	9.8	7.8
SPS	18,816	15,394	19,712	21,484	23,384
PSR	1.5	2.0	1.3	1.2	1.1
CFPS	1,993	1,859	1,572	1,945	2,356
DPS	600	450	450	550	650

Financial ratios	(W, x, %)				
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Sales growth	16.0	22.7	28.0	9.0	8.8
OP growth	22.3	59.6	-29.8	55.1	22.6
NP growth	23.8	52.4	-6.6	22.9	21.4
Profitability					
ROIC	48.5	83.8	52.6	65.6	72.7
ROA	10.2	11.7	6.5	9.5	11.0
ROE	16.5	20.3	15.9	17.4	18.5
Stability					
Debt ratio	104.9	107.5	100.7	91.8	83.0
Net borrowings ratio	-92.5	-60.8	-54.4	-53.9	-54.1
Interest coverage ratio	46.2	66.1	42.7	63.3	74.3

Source: Mode Tour, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Current assets	151	209	222	239	259
Cash & cash equiv.	58	53	54	66	81
Trade & other receive.	39	45	57	62	67
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	356	378	404
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	149	169	193
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	129	149	173
Other capital changes	-28	-19	-19	-19	-19
Non-controlling interest	-1	28	28	28	28
Total shareholder's equity	103	163	177	197	221
Net borrowings	-95	-99	-97	-106	-119

Cash flow statement	(Wbn)				
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	32	38	25	37	43
NP	16	24	23	28	34
Non-cash items	9	11	7	9	11
Depreciation	3	3	3	2	2
FX gains	-1	2	0	0	0
Equity method gain	0	0	0	0	0
Others	7	6	4	6	8
Chg in assets & liab.	12	12	2	9	9
Other cash flows	-5	-9	-6	-8	-10
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	-6	-8
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	-8	-10
Others	-9	16	1	0	0
Net chg in cash	14	-5	1	12	15
Beginning cash balance	45	58	53	54	66
Ending cash balance	58	53	54	66	81
NOPLAT	14	24	17	26	32
FCF	15	25	18	27	33

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)

Neutral Green (neutral)

Sky Blue (positive)

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[Investment rating & Target price history]

Mode Tour (080160 KQ)



Date	18.10.05	18.08.02	18.05.29	18.04.11	17.10.11	17.07.11
Rating	Buy	Buy	Buy	6M passed	Buy	Buy
Target price	35,000	35,000	40,000	33,000	33,000	36,000
Diff. (avr. %)		(34.30)	(30.46)	4.66	3.39	(22.68)
Diff. (max/min, %)		(27.29)	(15.88)	(5.45)	22.58	(15.28)
Date	17.06.01	17.05.10	17.04.04	17.02.14	17.01.23	
Rating	Buy	Buy	Buy	Buy	Buy	
Target price	36,000	34,700	30,000	28,700	25,300	
Diff. (avr. %)	(13.56)	(12.24)	(10.53)	(18.18)	(14.52)	
Diff. (max/min, %)	(8.70)	(8.94)	(8.67)	(10.12)	(11.05)	

Date
Rating
Target price
Diff. (avr. %)
Diff. (max/min, %)

Date
Rating
Target price
Diff. (avr. %)
Diff. (max/min, %)

Investment rating breakdown and framework (Oct. 2, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	82.6%	15.8%	1.1%

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.