Results Comment

Mode Tour (080160 KQ)

3Q18 results in line with lowered expectations

Kim Soo-min

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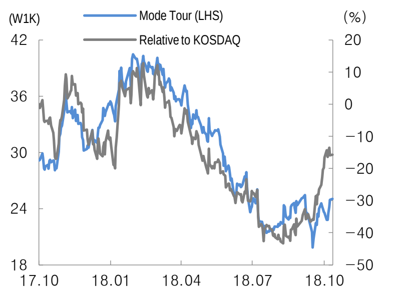
Rating	BUY maintain
6M TP (W)	35,000 maintain
CP (W) (18.11.05)	25,050
	Leisure

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	691.94
Market cap (Wbn)	473
Market cap portion (%)	0.21
Paid-in capital (common; Wbn)	9
52w high/low (W)	40,450 / 19,850
120d avg. trading volume (Wbn)	6.0
Foreign ownership (%)	30.49
Major shareholders	Woo Jong-woong+15: 15.46% Columbia Mgmt. Investment Advisers, LLC+1: 5.02%

(%)	1M	3M	6M	12M
Abs. return	8.2	10.6	-28.6	-12.1
Rel. return	21.0	26.1	-11.7	-10.9



BUY and 6M TP of W35,000 maintained

- The target price of W35,000 is derived by applying a target P/E of 22x to the 2019E EPS.

3Q18 results: Consolidated OP at W2.5bn, meeting reduced estimates

- On a consolidated basis, 3Q18 revenue expanded 34% yoy to W97.3bn, but OP fell 69% yoy to W2.5bn, coming in line with our estimate of W2.3bn and the market consensus of W3.0bn. On a non-consolidated basis, revenue and OP decreased 8% and 59% yoy, respectively, to W57.7bn and W3.6bn, while OP margin narrowed 8%p yoy to 6%.
- The yoy decline in non-consolidated revenue is due to a cut in the number of package tourists (5% yoy) and average selling price (3.0% yoy). Meanwhile, marketing expenses increased 26% yoy, which can be ascribed to the timing of the travel exhibition. (Mode Tour Travel Mart was held in 3Q this year compared to 4Q in 2017).
- Subsidiaries posted a combined operating loss of W1.1bn (up 57% yoy), including W0.3bn incurred by Mode Tour Japan due to a plunge in travel demand and W0.9bn incurred by Mode Stay on initial outlay related to its fourth location. Jau Tour, however, narrowed its operating loss to W0.1bn from W0.3bn a year earlier, reporting a 4% yoy dip in number of package tourists and 69% yoy growth in air ticket sales (+69% yoy).

October 2018 outbound tourists

- In October 2018, 130,000 customers purchased package tours (up 10% yoy) and 90,000 purchased air tickets (down 2% yoy) from Mode Tour, pushing up the company's outbound tourist number to 230,000 (up 5% yoy).
- Reservation rates (as of October 1): November 2018 -2.6% yoy (up 2%p mom), December 2018 -9.2% yoy (up 6%p mom), January 2019 -19.0% yoy, February 2019 +68.8% yoy.
- On a non-consolidated basis, 4Q18 OP is forecast to jump 32% yoy to W5.9bn reflecting a 2% yoy rise in package tourist volume and a 3% yoy dip in average selling prices. In 4Q17, OP dropped 17% yoy to W4.5bn as high payroll (up 20% yoy) and advertising costs (up 97% yoy) overshadowed the tour operator's top-line expansion that quarter (tourists up 15% yoy, average selling prices up 11% yoy). Payroll growth, however, will be limited in the current quarter due to a change in the employee bonus scheme (yearly to monthly payments) and poor operating conditions. Marketing expenses are forecast to decrease 33% yoy due to the timing of the travel exhibition.
- Earnings volatility looks limited, given the small share of Japan-bound tourists (take up only about 21% of total outbound volume), subsidiaries' modest contribution to quarterly earnings (–W0.3bn~+W0.3bn) and average selling prices of offers to nearby destinations (account for about 80% of total outbound tourists) are within a limited range (W660,000-690,000). With signs of the reservation rates gradually picking up and the Southeast Asian business resuming growth (up 9% yoy), it appears the industry has clearly passed the trough and set itself on a positive growth trajectory in February 2019 at the latest (benefiting from a low yoy comparison base of the 2018 Pyeongchang Winter Olympics). We expect travel demand to recover gradually, driving earnings growth in 4Q18, followed by a significant improvement in operating conditions.
- The current valuation of 17x 2019E EPS looks attractive, considering additional positive share price catalysts such as the launch of the visa center in 1Q19 and the consolidation of more overseas subsidiaries.

(Wbn, %)

			3Q18					4Q18		
			Previous estimate	Result	YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	73	83	84	97	33.9	16.6	85	94	21.6	-3.8
OP	8	4	2	3	-69.2	-37.0	3	6	10.6	148.9
NP	6	3	2	1	-79.4	-54.5	3	9	120.4	659.3

Operating results and major financial data

(Wbn, W, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	237	291	384	395	427
OP	20	32	22	37	47
Pretax profit	23	33	29	39	49
NP	16	24	21	29	37
NP (contr. int.)	17	24	21	29	36
EPS	1,330	1,279	1,109	1,511	1,911
PER	21.8	23.8	22.6	16.6	13.1
BPS	8,207	7,134	7,809	8,894	10,283
PBR	3.5	4.3	3.2	2.8	2.4
ROE	16.5	20.3	14.8	18.1	19.9

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

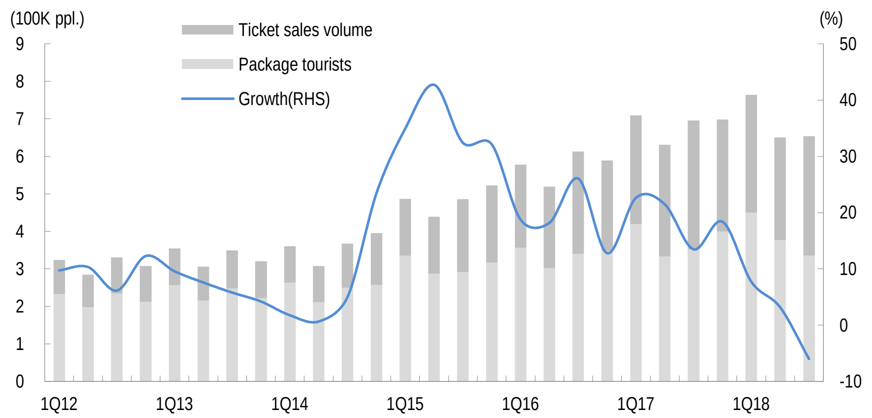
Yearly earnings forecast

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	373	406	384	395	3.1	-2.8
Selling & adm. expense	276	305	271	288	-1.7	-5.6
OP	23	35	22	37	-3.1	4.5
OP margin	6.1	8.6	6.1	8.6	0.0	0.0
Non-operating profit	7	2	7	2	-5.8	0.0
Pretax profit	30	37	29	39	-3.7	4.2
NP (controlling int.)	23	28	21	29	-7.2	3.0
NP margin	6.1	6.8	6.1	6.8	0.0	0.0
EPS (controlling int.)	1,195	1,467	1,109	1,511	-7.2	3.0

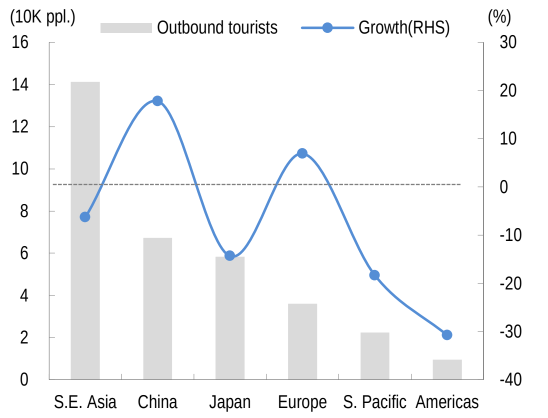
Source: Mode Tour, Daishin Securities Research Center

Fig 1. Mode Tour: 3Q18 total tourists -6% yoy, package tourists -5% yoy, air tickets -7% yoy



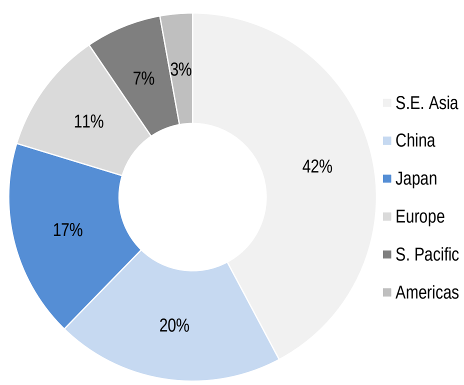
Source: Mode Tour, Daishin Securities Research Center

Fig 2. Outbound package tourists by region (3Q18)



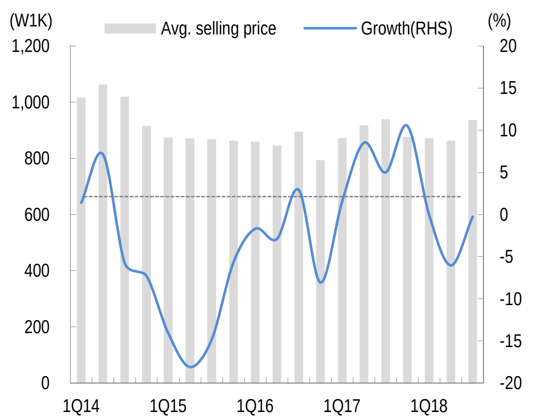
Source: Mode Tour, Daishin Securities Research Center

Fig 3. Regional breakdown of package tourists (3Q18)



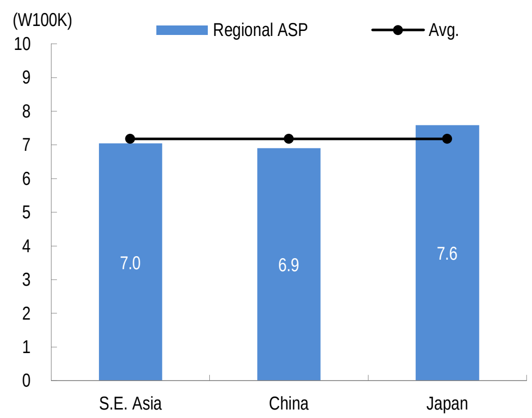
Source: Mode Tour, Daishin Securities Research Center

Fig 4. ASP of package tours



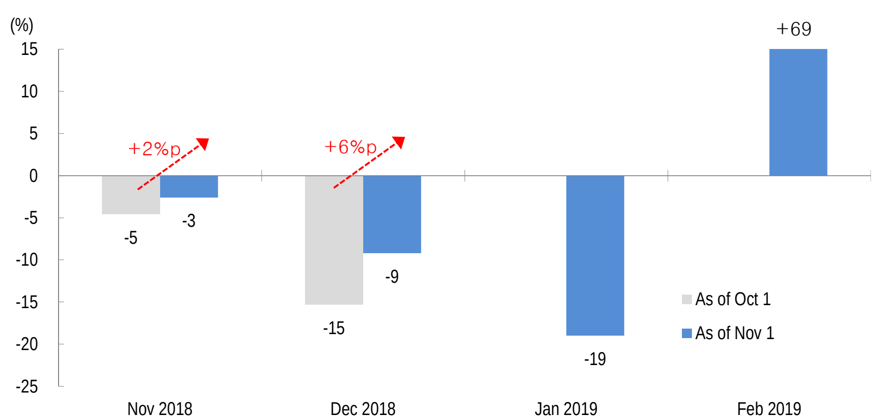
Source: Mode Tour, Daishin Securities Research Center

Fig 5. Major regions' package tour ASP (3Q18)



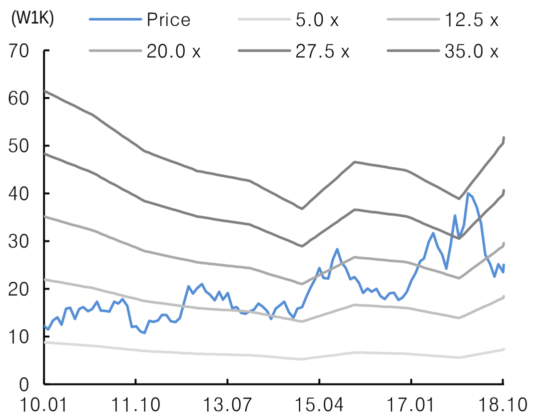
Source: Mode Tour, Daishin Securities Research Center

Fig 6. Reservation rates for November 2018-February 2019



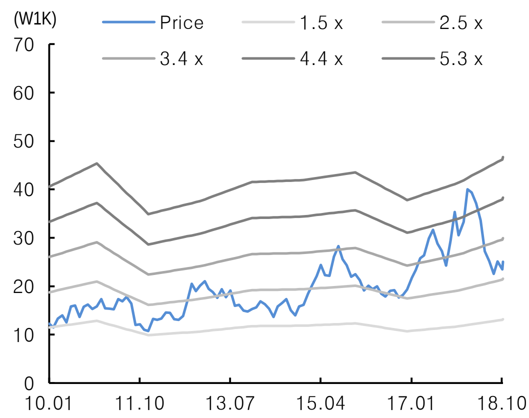
Source: Mode Tour, Daishin Securities Research Center

Fig 7. Mode Tour 12M F P/E band



Source: Wisefn, Daishin Securities Research Center

Fig 8. Mode Tour 12MF P/B band



Source: Wisefn, Daishin Securities Research Center

1. Company profile

Overview

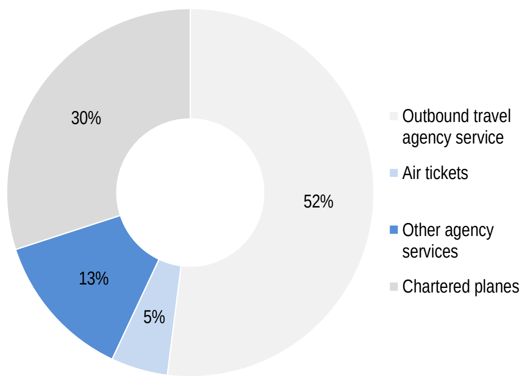
- A wholesale travel agency
- Annual outbound tourist volume: 2.73 million (1.5 million package tourists and 1.23 million air ticket purchasers)
- 2017 consolidated results: Revenue W290.9bn, OP W32.1bn, NP W24.2bn
- Non-consolidated revenue breakdown (as of 2017)
- Outbound travel agency service 84%, air ticket sales commissions 6%, other agency services 10%
- Regional breakdown of outbound package tourists (as of 2017)
- S.E. Asia 45%, Japan 21%, China 16%, Europe 8%, S. Pacific 7%, the Americas 3%

Share price catalysts

- Outbound tourists and reservation rates
- Operating conditions remain unfavorable both at home and abroad; share price lost more than 40% off the peak
- Reservation rates will improve over time, led by demand for offers to nearby destinations; the current valuation of 17x 2019E EPS looks compelling considering the limited 4Q18 earnings volatility and recovering operating conditions

Source: Mode Tour, Daishin Securities Research Center

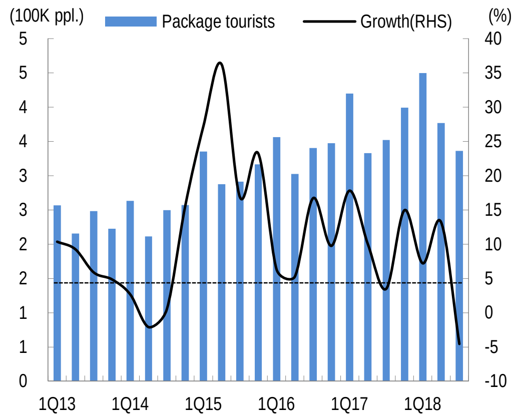
Revenue by business (As of 3Q18)



Source: Mode Tour, Daishin Securities Research Center

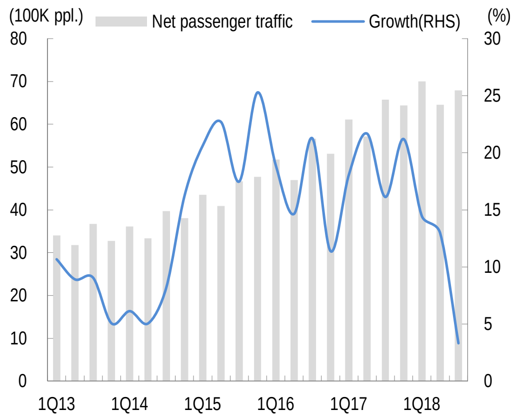
2. Earnings drivers

Fig 9. Mode Tour package tourists (3Q18)



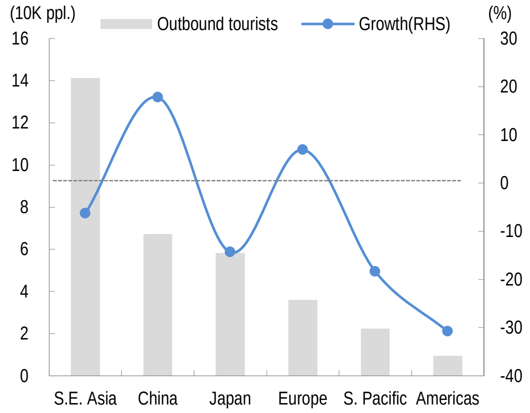
Source: Mode Tour, Daishin Securities Research Center

Fig 10. Net passenger traffic (3Q18)



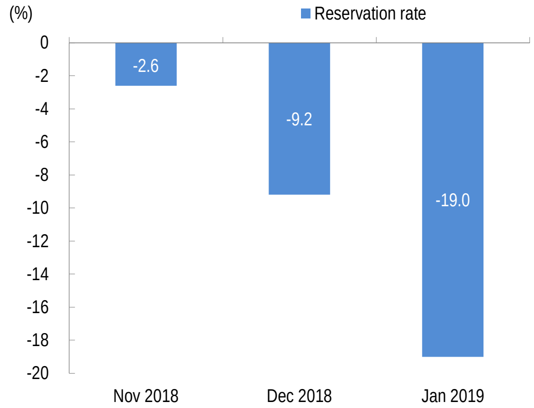
Source: Mode Tour, Daishin Securities Research Center

Fig 11. Mode Tour: Regional breakdown of outbound tourists (3Q18)



Source: Mode Tour, Daishin Securities Research Center

Fig 12. Mode Tour: Reservation rates (Nov 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)	21	29	36	40	44	48	50	53	56	58
Ⅱ	Shareholders' equity (contr. int.)(Note 2)	148	168	194	222	252	293	336	381	428	478
	Estimated ROE	14.8	18.1	19.9	19.4	18.7	17.6	16.0	14.8	13.7	12.9
Ⅲ	Required rate of return (Note 3)	5.2									
	Risk free rate of return (Note 4)	2.0									
	Market risk premium (Note 5)	4.0									
	Beta	0.80									
Ⅳ	Spread (estimated ROE – required rate of return)	9.6	12.9	14.7	14.2	13.5	12.4	10.8	9.6	8.5	7.7
Ⅴ	Required income	7	8	9	10	12	13	15	18	20	22
Ⅵ	Residual income (Ⅰ - Ⅴ)	14	21	27	30	33	35	35	35	36	36
	Present value factor	1.00	0.95	0.90	0.85	0.81	0.77	0.73	0.70	0.66	0.63
	PV of residual income	14	20	25	26	27	27	26	25	24	23
Ⅶ	Sum of residual income	235									
Ⅷ	PV of residual income following forecasting period	366									
	Terminal growth (g)(Note 6)	0.0%									
Ⅸ	Beginning shareholders' equity	135									
Ⅹ	Fair market cap (Ⅶ+Ⅷ+Ⅸ)	735									
	Total number of shares (thousands)	18,900									
ⅩⅠ	**Per share value (W)**	**38,909**									
	Current share price (W)	25,050									
	Potential (%)	55.3%									

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	384	395	427
Cost of goods sold	11	11	91	70	61
Gross profit	226	280	293	325	366
S&A expenses	206	248	271	288	319
OP	20	32	22	37	47
OP margin	8.5	11.0	5.7	9.3	11.0
EBITDA	23	35	24	39	49
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	4	-1	-1
Income before taxes	23	33	29	39	49
Income tax expense	-7	-9	-8	-10	-12
Income from cont. op.	16	24	21	29	37
Income from discont. op.	0	0	0	0	0
NP	16	24	21	29	37
NP margin	6.7	8.3	5.5	7.3	8.6
NP for non-contr. interest	-1	0	0	0	1
NP for contr. interest	17	24	21	29	36
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	16	24	21	29	36
Comp. income for non-contr. Int.	-1	0	0	0	1
Comp. income for contr. int.	16	24	21	28	36

Balance sheet (Wbn)

	2016A	2017A	2018F	2019F	2020F
Current assets	151	209	220	238	261
Cash & cash equiv.	58	53	51	67	85
Trade & other receive.	39	45	59	60	65
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	354	377	406
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	148	168	194
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	128	148	174
Other capital changes	-28	-19	-19	-19	-19
Non-controlling interest	-1	28	28	28	28
Total shareholder's equity	103	163	176	196	223
Net borrowings	-95	-99	-93	-107	-123

Valuation metrics (W, x, %)

	2016A	2017A	2018F	2019F	2020F
EPS	1,330	1,279	1,109	1,511	1,911
PER	21.8	23.8	22.6	16.6	13.1
BPS	8,207	7,134	7,809	8,894	10,283
PBR	3.5	4.3	3.2	2.8	2.4
EBITDAPS	1,820	1,860	1,291	2,057	2,597
EV/EBITDA	11.7	14.4	16.7	10.1	7.7
SPS	18,816	15,394	20,328	20,878	22,587
PSR	1.5	2.0	1.2	1.2	1.1
CFPS	1,993	1,859	1,513	2,028	2,569
DPS	600	450	450	550	700

Financial ratios (W, x, %)

	2016A	2017A	2018F	2019F	2020F
Growth potential					
Revenue growth	16.0	22.7	32.0	2.7	8.2
OP growth	22.3	59.6	-31.9	67.2	28.3
NP growth	23.8	52.4	-13.1	37.5	26.8
Profitability					
ROIC	48.5	83.8	48.0	68.6	83.2
ROA	10.2	11.7	6.3	10.0	12.0
ROE	16.5	20.3	14.8	18.1	19.9
Stability					
Debt ratio	104.9	107.5	101.6	92.2	82.3
Net borrowings ratio	-92.5	-60.8	-53.0	-54.6	-55.4
Interest coverage ratio	46.2	66.1	41.4	66.1	81.3

Source: Mode Tour, Daishin Securities Research Center

Cash flow statement (Wbn)

	2016A	2017A	2018F	2019F	2020F
Operating cash flows	32	38	22	42	46
NP	16	24	21	29	37
Non-cash items	9	11	8	9	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	7	9
Chg in assets & liab.	12	12	0	12	9
Other cash flows	-5	-9	-7	-9	-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	-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	-2	16	19
Beginning cash balance	45	58	53	51	67
Ending cash balance	58	53	51	67	85
NOPLAT	14	24	16	27	35
FCF	15	25	17	28	36

[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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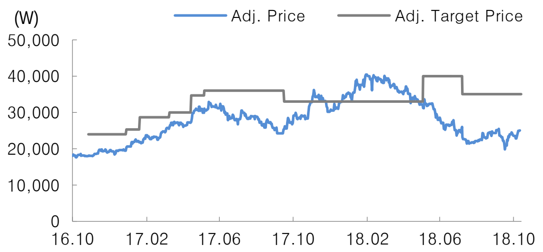
[Investment rating & Target price history]

Mode Tour (080160 KQ)



Date	18.11.06	18.08.02	18.05.29	18.04.11	17.10.11	17.07.11
Rating	Buy	Buy	Buy	6개월 경과	Buy	Buy
Target price	35,000	35,000	40,000	33,000	33,000	36,000
Diff. (avr. %)		(34.15)	(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	16.11.21
Rating	Buy	Buy	Buy	Buy	Buy	Buy
Target price	36,000	34,700	30,000	28,700	25,300	24,000
Diff. (avr. %)	(13.56)	(12.24)	(10.53)	(18.18)	(14.52)	(20.45)
Diff. (max/min., %)	(8.70)	(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 (Nov 3, 2018)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	84.0%	14.4%	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.