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# Company Update



**Eunkyung Park**  
Analyst  
eunkyung44.park@samsung.com  
822 2020 7850

**Jihye Kim**  
Research Associate  
jihye48.kim@samsung.com  
822 2020 7983

## AT A GLANCE

SELL **HOLD** BUY

Target price **KRW26,000** (-1.7%)

Current price **KRW26,450**

Market cap KRW499.91b/USD441.77m  
Shares (float) 18,900,000 (78.6%)  
52-week high/low KRW40,450/KRW19,850  
Avg daily trading value (60-day) KRW6.5b/  
USD5.7m

## ONE-YEAR PERFORMANCE

	1M	6M	12M
Mode Tour Network (%)	10.2	-19.6	-16.4
Vs Kosdaq (%pts)	17.3	0.9	-5.2

## KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	HOLD	Not rated	
Target price	26,000	n/a	n/a
2018E EPS	1,024	n/a	n/a
2019E EPS	1,167	n/a	n/a

## SAMSUNG vs THE STREET

No of estimates	10
Target price	28,850
Recommendation	3.8

BUY★★★: 5 / BUY: 4 / HOLD: 3 / SELL: 2 / SELL★★★: 1

## Mode Tour Network (080160)

### Playing second fiddle, but steady

- We reinstate coverage of Mode Tour Network at HOLD with a target price of KRW26,000 (derived from a discounted cash flow valuation).
- Mode's operating profit is likely to tumble 31% in 2018 due to weak travel demand. Growth in overall demand should slow again next year, but operating profit should rise 12% on a low base effect. Mode has chosen to focus on the package tour segment, whose growth is expected to lag that of the free independent traveler and hybrid segments. As a result, the firm has less room for longer-term growth than its peers do.
- Shares are trading at P/E multiples last seen over 2012-2015, when outbound travel demand grew by a single-digit percentage. Given no momentum in sight, shares are likely to move range-bound for some time.

## WHAT'S THE STORY?

**Slowing market growth to weigh on earnings:** We expect Mode Tour Network to see consolidated operating profit fall 31% this year. Growth in overall travel demand is likely to keep slowing, leaving sales to climb just 8% in 2019 (slightly outpacing market growth). Operating profit should rise 12% on a low base next year. Mode has made the strategic decision to defend profitability by focusing more on package tours than on lower-margin programs for free independent travelers (FITs). While this strategy should keep Mode's parent-based operating margin higher than its rivals', it does raise questions about the firm's longer-term growth prospects, as demand for package tours is slackening amid changes in travel consumption patterns. With the package tour segment growing more slowly than the overall market is, we see limited upside for Mode's sales and market share growth. Under the firm's two-pronged strategy in place, it redirects demand for low-priced package tours and low-margin tickets to subsidiary Jau Tour. But to adequately respond to market change, it may need to reinvent its business model.

**Neither cheap nor expensive:** Shares appear to have priced in not only poor 3Q results and but also expectations that 4Q results will be bolstered by a low base stemming from one-off ad spending in 4Q17. Shares are trading at P/E multiples last seen over 2012-2015, when outbound travel demand grew by a single-digit percentage. Given no momentum in sight, shares are likely to move range-bound for some time.

## SUMMARY FINANCIAL DATA

	2017	2018E	2019E	2020E
Revenue (KRWb)	290.9	377.0	406.1	439.0
Net profit (adj) (KRWb)	24.2	15.8	18.3	20.1
EPS (adj) (KRW)	1,464	1,024	1,167	1,256
EPS (adj) growth (% y-y)	65.2	(30.1)	14.0	7.7
EBITDA margin (%)	12.1	7.1	7.5	7.8
ROE (%)	18.2	9.5	10.4	10.7
P/E (adj) (x)	16.7	23.9	21.0	19.5
P/B (x)	3.3	3.1	2.9	2.7
EV/EBITDA (x)	33.8	19.4	12.9	10.5
Dividend yield (%)	1.8	1.8	1.8	1.8

Source: Company data, Samsung Securities estimates

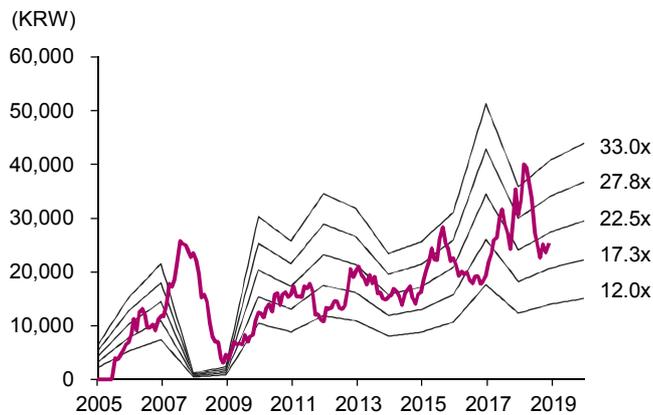
**Mode Tour network: DCF valuation**

(KRWb)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
<b>EBIT</b>	26	29	32	33	33	34	35	35	36	37
Tax	6	8	8	8	8	8	9	9	9	9
Capex	5	5	5	5	5	5	5	5	6	6
Change in working capital	14	-20	7	8	8	8	8	8	8	9
Depreciation	4	5	6	7	7	7	7	7	7	7
Amortization	1	1	1	1	1	1	1	1	1	1
<b>Free cash flow</b>	5	42	18	19	19	20	20	20	21	21
<b>Terminal value</b>	461									
Terminal growth (%)	2.0									
NPV of FCFE	146									
<b>PV of terminal value</b>	241									
<b>Enterprise value</b>	387									
Equity value (adjusted)**	482									
Shares outstanding	18,900									
<b>Fair value per share (KRW)</b>	25,486									
Current share price (KRW)*	24,700									
Upside (%)	3.2									

Note: \*As of Nov 7 close

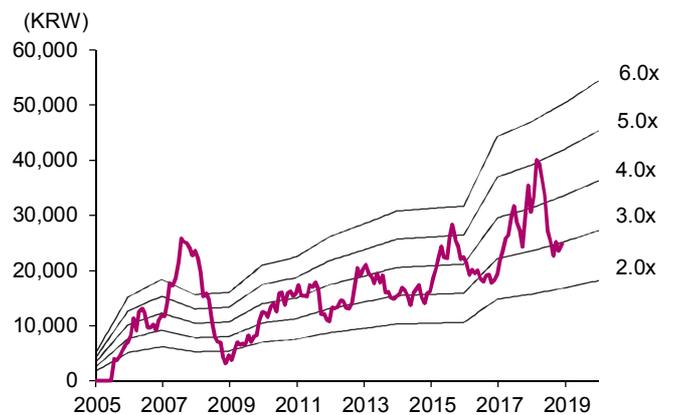
Source: Company data, Samsung Securities estimates

**Mode Tour: P/E band**



Source: WiseFn, Samsung Securities

**Mode Tour: P/B band**



Source: WiseFn, Samsung Securities

## Mode Tour: Quarterly earnings and estimates

(KRWb)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18P	4Q18E	2016	2017	2018E	2019E
Korean outbound demand ('000 people)	6,114	5,713	6,572	6,438	6,997	6,453	6,791	6,631	20,844	24,837	26,898	28,593
Market share (%)	11.6	11.0	10.6	10.8	10.9	10.1	9.6	13.1	11.0	11.0	10.9	10.9
Mode Tour outbound demand ('000 people)	709	630	695	698	764	650	654	868	2,299	2,733	2,936	3,126
Package	420	333	352	399	450	377	336	477	1,346	1,504	1,639	1,747
Ticket	289	298	343	298	314	274	318	391	953	1,229	1,297	1,378
Gross sales	509.0	447.0	508.9	502.1	551.3	456.1	491.9	571.0	1,624	1,967	2,070	2,184
Package	365.9	305.3	330.4	350.1	392.0	324.8	314.5	405.2	1,141	1,352	1,437	1,531
Ticket	143.1	141.6	178.5	152.0	159.3	131.3	177.3	165.9	482	615	634	653
Package sales conversion ratio (%)*	15.1	15.7	15.6	15.3	19.7	17.8	14.5	14.5	11.5	11.4	11.7	11.6
Net sales	74.0	67.3	72.7	77.0	109.8	83.4	97.3	86.5	206	249	321	340
Parent-based	64.3	57.3	62.5	65.2	94.3	70.4	82.3	73.6	172	208	226	237
Subsidiaries	9.7	10.0	10.2	11.7	15.5	13.0	15.0	12.9	34	41	95	102
Operating profit	11.0	7.3	8.1	5.6	9.1	4.0	2.5	6.6	20	32	22	25
Parent-based	11.7	7.9	8.8	4.5	10.5	4.6	3.6	6.2	25	33	25	26
Subsidiaries	(0.7)	(0.5)	(0.7)	1.2	(1.4)	(0.6)	(1.1)	0.4	(5)	(1)	(3)	(1)
Operating margin (%)	14.9	10.9	11.2	7.3	8.3	4.8	2.6	7.7	8.5	11.0	5.9	6.1
Parent-based	18.3	13.7	14.1	6.8	11.2	6.6	4.4	8.5	14.2	29.1	(24.0)	2.0
Subsidiaries	(3.4)	(2.9)	(2.9)	0.5	(2.9)	(1.8)	(1.8)	(0.8)	(5.7)	(18.1)	29.9	4.2
<b>Growth (% y-y)</b>												
Korean outbound demand	15.3	21.7	16.1	21.2	14.4	13.0	3.3	3.0	16.5	19.2	8.3	6.3
Mode Tour outbound demand	22.6	21.5	13.5	18.4	7.7	3.2	(6.0)	24.3	18.9	18.8	7.4	6.5
Package	17.8	10.0	3.5	15.0	7.2	13.2	(4.6)	19.3	9.4	11.7	9.0	6.6
Ticket	30.3	37.6	25.9	23.3	8.5	(8.0)	(7.5)	31.0	35.3	28.9	5.5	6.3
Gross sales	20.6	24.0	12.8	28.8	8.3	2.1	(3.3)	13.7	10.5	21.1	5.3	5.5
Package	19.6	19.3	8.7	27.0	7.1	6.4	(4.8)	15.7	6.8	18.4	6.3	6.6
Ticket	23.1	35.3	21.4	33.0	11.3	(7.3)	(0.6)	9.1	20.4	27.6	3.0	3.0
Net sales	24.3	23.9	13.2	30.3	48.4	24.0	33.9	12.3	(86.0)	21.1	28.6	5.9
Parent-based	21.1	23.6	12.2	28.7	46.6	22.9	31.7	12.8	(84.0)	21.5	8.3	5.2
Subsidiaries	50.9	25.9	19.6	40.0	60.3	30.5	47.3	9.5	(91.4)	19.5	131.8	7.4
Operating profit	154.8	99.9	(2.3)	48.1	(17.1)	(45.6)	(69.1)	17.4	22.3	59.6	(30.7)	12.2
Parent-based	85.9	65.4	(2.1)	(17.2)	(10.3)	(41.3)	(59.0)	39.9	14.2	29.1	(24.0)	2.0
Subsidiaries	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note: \*Net sales to gross sales; new accounting rules took effect in 2018

Source: Company data, Samsung Securities estimates

## Income statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
<b>Sales</b>	<b>237.1</b>	<b>290.9</b>	<b>377.0</b>	<b>406.1</b>	<b>439.0</b>
Cost of goods sold	11.2	10.9	77.3	80.4	84.7
<b>Gross profit</b>	<b>225.9</b>	<b>280.0</b>	<b>299.7</b>	<b>325.7</b>	<b>354.3</b>
Gross margin (%)	95.3	96.2	79.5	80.2	80.7
SG&A expenses	205.8	247.9	273.7	296.3	322.4
<b>Operating profit</b>	<b>20.1</b>	<b>32.1</b>	<b>26.1</b>	<b>29.4</b>	<b>31.9</b>
Operating margin (%)	8.5	11.0	6.9	7.2	7.3
<b>Non-operating gains (losses)</b>	<b>2.8</b>	<b>0.8</b>	<b>(4.1)</b>	<b>(3.9)</b>	<b>(4.0)</b>
Financial profit	1.6	1.5	1.7	1.7	1.8
Financial costs	0.4	0.8	1.9	1.2	1.0
Equity-method gains (losses)	2.2	3.0	3.0	3.0	3.0
Other	(0.6)	(2.9)	(6.9)	(7.5)	(7.8)
<b>Pre-tax profit</b>	<b>22.9</b>	<b>32.9</b>	<b>22.0</b>	<b>25.5</b>	<b>27.9</b>
Taxes	7.0	8.7	6.2	7.1	7.8
Effective tax rate (%)	30.7	26.4	28.0	28.0	28.0
Profit from continuing operations	15.9	24.2	15.8	18.3	20.1
Profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>15.9</b>	<b>24.2</b>	<b>15.8</b>	<b>18.3</b>	<b>20.1</b>
Net margin (%)	6.7	8.3	4.2	4.5	4.6
Net profit (controlling interests)	16.8	24.2	16.3	18.9	20.5
Net profit (non-controlling interests)	(0.9)	0.0	(0.5)	(0.5)	(0.4)
EBITDA	22.9	35.2	26.8	30.5	34.1
EBITDA margin (%)	9.7	12.1	7.1	7.5	7.8
EPS (parent-based) (KRW)	873	1,350	883	1,023	1,120
EPS (consolidated) (KRW)	840	1,280	837	970	1,062
Adjusted EPS (KRW)*	886	1,464	1,024	1,167	1,256

## Cash flow statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
<b>Cash flow from operations</b>	<b>32</b>	<b>38</b>	<b>6</b>	<b>23</b>	<b>11</b>
Net profit	16	24	16	18	20
Non-cash profit and expenses	9	11	7	8	9
Depreciation	2	2	4	5	6
Amortization	1	1	1	1	1
Other	6	8	2	2	3
Changes in A/L from operating activities	12	12	(6)	39	37
<b>Cash flow from investments</b>	<b>(6)</b>	<b>(54)</b>	<b>(2)</b>	<b>3</b>	<b>7</b>
Change in tangible assets	(1)	(1)	2	2	1
Change in financial assets	(1)	(57)	(3)	(3)	(4)
Other	(4)	5	(2)	5	10
<b>Cash flow from financing</b>	<b>(12)</b>	<b>11</b>	<b>(11)</b>	<b>(21)</b>	<b>(8)</b>
Change in debt	1	40	(13)	(5)	11
Change in equity	(0)	4	0	0	0
Dividends	(5)	(7)	(9)	(8)	(8)
Other	(8)	(26)	10	(8)	(11)
Change in cash	14	(5)	(7)	5	10
Cash at beginning of year	45	58	53	46	51
Cash at end of year	58	53	46	51	61
<b>Gross cash flow</b>	<b>25</b>	<b>35</b>	<b>23</b>	<b>26</b>	<b>30</b>
<b>Free cash flow</b>	<b>30</b>	<b>37</b>	<b>1</b>	<b>18</b>	<b>6</b>

Note: \* Excluding one off items, \*\* Fully diluted, excluding one-off items

\*\*\* From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

## Balance sheet

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
<b>Current assets</b>	<b>151</b>	<b>209</b>	<b>211</b>	<b>206</b>	<b>231</b>
Cash & equivalents	58	53	46	51	61
Accounts receivable	31	43	49	48	62
Inventories	0	0	4	2	0
Other current assets	62	113	112	105	107
<b>Fixed assets</b>	<b>59</b>	<b>130</b>	<b>131</b>	<b>134</b>	<b>140</b>
Investment assets	22	16	9	2	(4)
Tangible assets	22	23	31	41	53
Intangible assets	6	3	3	3	3
Other long-term assets	10	88	88	88	88
<b>Total assets</b>	<b>210</b>	<b>338</b>	<b>342</b>	<b>341</b>	<b>370</b>
<b>Current liabilities</b>	<b>103</b>	<b>142</b>	<b>143</b>	<b>143</b>	<b>161</b>
Accounts payable	0	0	0	0	0
Short-term debt	0	14	7	1	13
Other current liabilities	103	128	136	142	148
<b>Long-term liabilities</b>	<b>5</b>	<b>33</b>	<b>28</b>	<b>16</b>	<b>16</b>
Bonds & long-term debt	2	30	25	13	13
Other long-term liabilities	2	3	3	3	3
<b>Total liabilities</b>	<b>108</b>	<b>175</b>	<b>171</b>	<b>159</b>	<b>177</b>
<b>Owners of parent equity</b>	<b>103</b>	<b>135</b>	<b>143</b>	<b>153</b>	<b>165</b>
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	123	133	145
Other	(28)	(19)	(19)	(19)	(19)
<b>Non-controlling interests' equity</b>	<b>(1)</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>
<b>Total equity</b>	<b>103</b>	<b>163</b>	<b>171</b>	<b>181</b>	<b>193</b>
Net debt	(97)	(100)	(106)	(132)	(132)

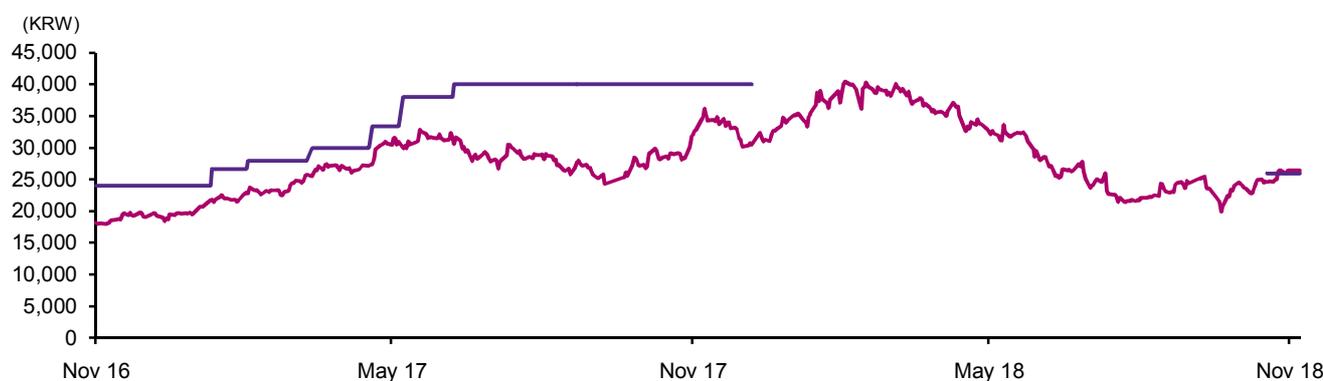
## Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
<b>Growth (%)</b>					
Sales	16.0	22.7	29.6	7.7	8.1
Operating profit	22.3	59.6	(18.8)	12.7	8.5
Net profit	23.8	52.4	(34.6)	15.9	9.5
Adjusted EPS**	26.5	65.2	(30.1)	14.0	7.7
<b>Per-share data (KRW)</b>					
EPS (parent-based)	873	1,350	883	1,023	1,120
EPS (consolidated)	840	1,280	837	970	1,062
Adjusted EPS**	886	1,464	1,024	1,167	1,256
BVPS	5,272	7,376	7,809	8,382	9,052
DPS (common)	600	450	450	450	450
<b>Valuations (x)</b>					
P/E***	27.6	16.7	23.9	21.0	19.5
P/B***	4.6	3.3	3.1	2.9	2.7
EV/EBITDA	26.0	33.8	19.4	12.9	10.5
<b>Ratios (%)</b>					
ROE	15.7	18.2	9.5	10.4	10.7
ROA	8.1	8.8	4.7	5.4	5.6
ROIC	(128.4)	(103.2)	(136.4)	(373.0)	(302.5)
Payout ratio	41.2	33.9	49.5	42.8	39.4
Dividend yield (common)	1.6	1.8	1.8	1.8	1.8
Net debt to equity	(90.6)	(59.6)	(53.2)	(65.0)	(60.5)
Interest coverage (x)	46.2	66.1	13.7	25.4	31.7

### Compliance notice

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### Target price changes in past two years



### Rating changes over past two years (adjusted share prices)

Date	2016/11/21	2017/2/1	2/23	4/3	5/10	5/28	6/29	2018/11/8
Recommendation	BUY	BUY	BUY	BUY	BUY	BUY	BUY	HOLD
Target price (KRW)	24,012	26,681	28,015	30,016	33,351	38,020	40,000	26,000
Gap* (average)	(19.71)	(17.25)	(15.35)	(10.65)	(8.43)	(17.47)	(26.94)	
(max or min)**	(9.30)	(13.88)	(7.98)	(8.67)	(5.30)	(13.51)	(9.50)	

Note: \* [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%  
 \*\* Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

Samsung Securities uses the following investment ratings.

#### Company

- BUY** Expected to increase in value by 10% or more within 12 months and is highly attractive within sector
- HOLD** Expected to increase/decrease in value by less than 10% within 12 months
- SELL** Expected to decrease in value by 10% or more within 12 months

#### Industry

- OVERWEIGHT** Expected to outperform market by 5% or more within 12 months
- NEUTRAL** Expected to outperform/underperform market by less than 5% within 12 months
- UNDERWEIGHT** Expected to underperform market by 5% or more within 12 months

### Percentage of ratings in 12 months prior to Sep 30, 2018

BUY (85%) | HOLD (15%) | SELL (0%)

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