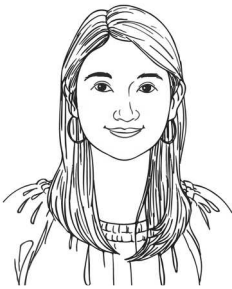


2018. 12. 11

Company Update



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AT A GLANCE

SELL **HOLD** BUY

Target price KRW26,000 (9.9%)

Current price KRW23,650

Market cap KRW446.99b/USD396.8m
Shares (float) 18,900,000 (78.6%)
52-week high/low KRW40,450/KRW19,850
Avg daily trading value (60-day) KRW6.1b/USD5.4m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Mode Tour Network (%)	-4.3	-26.9	-29.7
Vs Kosdaq (%pts)	-1.8	-4.2	-22.0

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	HOLD	HOLD	
Target price	26,000	26,000	0.0%
2018E EPS	919	1,024	-10.2%
2019E EPS	1,217	1,167	4.3%

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)

2019 guidance released

- On Dec 7, Mode Tour Network released its 2019 guidance, targeting consolidated sales and operating profit of KRW422.4b (up 12% vs our 2018 estimate) and KRW33.4b (up 70%), respectively. More conservative than the company, we predict that its sales and operating profit will climb a respective 8% and 33% in 2019.
- We expect Korea's outbound demand and package tour demand to grow a respective 7% and 8% y-y vs guidance of up 9% and 13% y-y, which is the main reason for our more conservative earnings forecasts. We foresee a lower degree of operating leverage (vs the firm), expecting its consolidated subsidiaries to remain in the red—albeit slightly—next year (vs guidance of them moving into the black).
- We only fine-tune our earnings estimates for 2019, and therefore keep the stock at HOLD with an unchanged target price of KRW26,000.

WHAT'S THE STORY?

2019 guidance released: Mode Tour Network has released its 2019 guidance, targeting consolidated sales and operating profit of KRW422.4b (up 12% vs our 2018 estimate) and KRW33.4b (up 70%), respectively. Less optimistic than the company, we predict that its sales and operating profit will grow 8% and 33%, respectively, in 2019. Our more conservative sales estimate has resulted in a lower operating profit forecast (vs guidance). We expect package tour demand to grow 8% next year (vs guidance of up 13%), as structural demand should continue to shift from package tours to free independent travelers (FIT; a trend that gained visibility in 2014). Over January-September, package tour demand shrank 4% y-y, while FIT demand expanded 17% y-y (vs up 16.1% and up 19.8%, respectively in full-year 2017). Though the firm has consolidated subsidiaries turning around in 2019, buoying its consolidated earnings, we expect the major subsidiaries (including Jau Tour) to remain in the red due to the difficult business environment—factors that drove demand growth in the past are weakening.

Maintaining HOLD and KRW26,000 target: We revise down our operating profit forecast for 2018 by 11% as Mode Stay remained in the red in 3Q amid the opening of its fourth hotel in Ulsan. Meanwhile, reflecting our lowered oil price outlook, we slightly raise our outbound demand growth forecast for 2019 from 6% to 7%, though this has little impact on our earnings projections. We fine-tune our 2019 estimates for Mode Tour, keeping it at HOLD with a KRW26,000 target price (based on a DCF valuation).

SUMMARY FINANCIAL DATA

	2017	2018E	2019E	2020E
Revenue (KRWb)	290.9	376.3	406.9	436.6
Net profit (adj) (KRWb)	24.2	14.0	19.2	21.3
EPS (adj) (KRW)	1,464	919	1,217	1,328
EPS (adj) growth (% y-y)	65.3	(37.3)	32.5	9.1
EBITDA margin (%)	12.1	6.4	7.8	8.2
ROE (%)	18.2	8.4	10.9	11.3
P/E (adj) (x)	16.7	26.7	20.1	18.4
P/B (x)	3.3	3.2	2.9	2.7
EV/EBITDA (x)	33.8	19.4	12.9	10.5
Dividend yield (%)	1.9	1.6	1.7	1.7

Source: Company data, Samsung Securities estimates

2018 outbound growth: Package vs FIT

Growth (% y-y)	Package	FIT	Total*	Package portion (%)
Jan 2018	6.1	33.7	23.3	38
Feb 2018	(9.6)	13.0	3.2	39
Mar 2018	1.4	27.0	16.8	40
Apr 2018	1.2	17.8	11.4	38
May 2018	10.6	19.5	16.8	36
Jun 2018	(4.8)	19.4	10.8	33
Jul 2018	(14.0)	13.8	4.5	30
Aug 2018	(10.0)	13.4	6.0	30
Sep 2018	(14.3)	(3.0)	(0.8)	31
Jan-Sep 2018	(3.7)	16.7	10.0	35

Note: *Total outbound excluding crews

Source: KATA, KTO, Samsung Securities

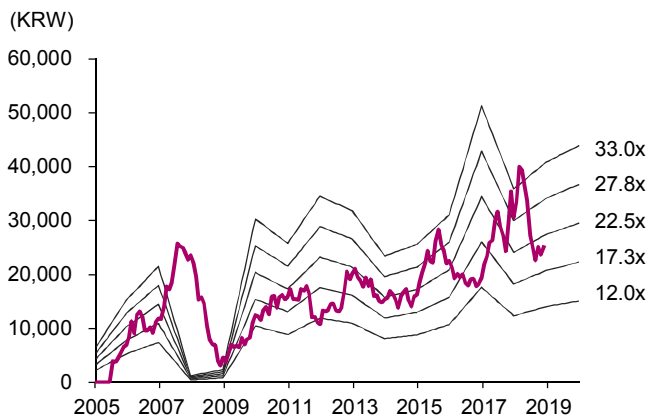
Mode Tour Network: DCF valuation

(KRWb)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	20	26	29	29	30	31	31	32	33	33
Tax	6	9	9	9	9	9	9	10	10	10
Capex	5	5	5	5	5	5	5	5	6	6
Change in working capital	23	(19)	7	7	7	7	8	8	8	8
Depreciation	4	5	6	7	7	7	7	7	7	7
Amortization	1	1	1	1	1	1	1	1	1	1
Free cash flow	(9)	36	15	16	16	16	17	17	17	18
Terminal value	490									
Terminal growth (%)	2.0									
NPV of FCFF	114									
PV of terminal value	283									
Enterprise value	397									
Equity value (adjusted)**	491									
Shares outstanding	18,900									
Fair value per share (KRW)	25,975									
Current share price (KRW)*	23,650									
Upside (%)	9.8%									

Note: *As of Dec 10 close

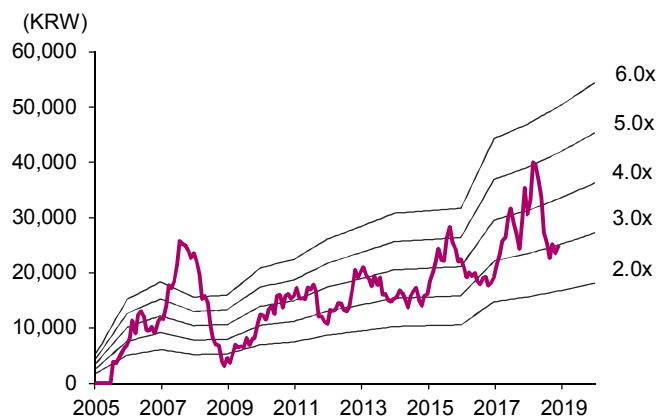
Source: Company data, Samsung Securities estimates

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	3Q18	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	28,889
Market share (%)	11.6	11.0	10.6	10.8	10.9	10.1	9.6	11.3	11.0	11.0	10.5	10.4
Mode Tour outbound demand ('000 people)	709	630	695	698	764	650	654	752	2,299	2,733	2,820	3,016
Package	420	333	352	399	450	377	336	429	1,346	1,504	1,591	1,701
Ticket	289	298	343	298	314	274	318	323	953	1,229	1,229	1,315
Gross sales	509	447	509	502	551	456	492	527	1,624	1,967	2,026	2,137
Package	366	305	330	350	392	325	315	370	1,141	1,352	1,402	1,468
Ticket	143	142	178	152	159	131	177	157	482	615	625	668
Package sales conversion ratio (%)*	15.1	15.7	15.6	15.3	19.7	17.8	21.6	15.7	11.5	11.4	11.9	11.6
Net sales	74.0	67.3	72.7	77.0	109.8	83.4	97.3	85.8	206	249	320	338
Parent-based	64.3	57.3	62.5	65.2	94.3	70.4	82.3	73.0	172	208	224	231
Subsidiaries	9.7	10.0	10.2	11.7	15.5	13.0	15.0	12.7	34	41	96	108
Operating profit	11.0	7.3	8.1	5.6	9.1	4.0	2.5	4.1	20	32	20	26
Parent-based	11.7	7.9	8.8	4.5	10.5	4.6	3.6	5.1	25	33	24	27
Subsidiaries	(0.7)	(0.5)	(0.7)	1.2	(1.4)	(0.6)	(1.1)	(1.0)	(5)	(1)	(4)	(1)
Operating margin (%)	14.9	10.9	11.2	7.3	8.3	4.8	2.6	4.8	8.5	11.0	5.2	6.5
Parent-based	18.3	13.7	14.1	6.8	11.2	6.6	4.4	7.0	12.4	13.2	7.5	8.0
Subsidiaries	(3.4)	(2.9)	(2.9)	0.5	(2.9)	(1.8)	(1.8)	(2.2)	(15.6)	(1.9)	(4.3)	(0.8)
Growth (% y-y)												
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	7.4
Mode Tour outbound demand	22.6	21.5	13.5	18.4	7.7	3.2	(6.0)	7.7	18.9	18.8	3.2	6.9
Package	17.8	10.0	3.5	15.0	7.2	13.2	(4.6)	7.3	9.4	11.7	5.8	6.9
Ticket	30.3	37.6	25.9	23.3	8.5	(8.0)	(7.5)	8.4	35.3	28.9	0.0	7.0
Gross sales	20.6	24.0	12.8	28.8	8.3	2.1	(3.3)	4.9	10.5	21.1	3.0	5.5
Package	19.6	19.3	8.7	27.0	7.1	6.4	(4.8)	5.7	6.8	18.4	3.7	4.8
Ticket	23.1	35.3	21.4	33.0	11.3	(7.3)	(0.6)	3.0	20.4	27.6	1.5	7.0
Net sales	24.3	23.9	13.2	30.3	48.4	24.0	33.9	11.4	12.9	21.1	28.3	5.7
Parent-based	21.1	23.6	12.2	28.7	46.6	22.9	31.7	11.9	13.9	21.5	7.6	2.8
Subsidiaries	50.9	25.9	19.6	40.0	60.3	30.5	47.3	8.5	8.5	19.5	133.5	12.5
Operating profit	154.8	99.9	(2.3)	48.1	(17.1)	(45.6)	(69.2)	(27.0)	22.3	59.6	(38.5)	33.0
Parent-based	85.9	65.4	(2.1)	(17.2)	(10.3)	(41.3)	(59.0)	14.9	14.2	29.1	(27.4)	13.7
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
Sales	237.1	290.9	376.3	406.9	436.6
Cost of goods sold	11.2	10.9	85.2	88.6	93.3
Gross profit	225.9	280.0	291.2	318.3	343.3
Gross margin (%)	95.3	96.2	77.4	78.2	78.6
SG&A expenses	205.8	247.9	271.4	292.0	314.4
Operating profit	20.1	32.1	19.7	26.3	28.9
Operating margin (%)	8.5	11.0	5.2	6.5	6.6
Non-operating gains (losses)	2.8	0.8	(0.3)	0.4	0.8
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)	(3.0)	(3.0)	(3.0)
Pre-tax profit	22.9	32.9	19.4	26.7	29.6
Taxes	7.0	8.7	5.4	7.5	8.3
Effective tax rate (%)	30.7	26.4	28.0	28.0	28.0
Profit from continuing operations	15.9	24.2	14.0	19.2	21.3
Profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	15.9	24.2	14.0	19.2	21.3
Net margin (%)	6.7	8.3	3.7	4.7	4.9
Net profit (controlling interests)	16.8	24.2	14.4	19.8	21.7
Net profit (non-controlling interests)	(0.9)	0.0	(0.4)	(0.5)	(0.4)
EBITDA	22.9	35.2	24.3	31.8	35.9
EBITDA margin (%)	9.7	12.1	6.4	7.8	8.2
EPS (parent-based) (KRW)	873	1,350	781	1,072	1,191
EPS (consolidated) (KRW)	840	1,280	741	1,017	1,129
Adjusted EPS (KRW)*	886	1,464	919	1,217	1,328

Cash flow statement

Year-end Dec 31 (KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	32	38	5	23	14
Net profit	16	24	14	19	21
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	2	38	46
Cash flow from investments	(6)	(54)	(2)	3	7
Change in tangible assets	(1)	(1)	2	2	1
Change in financial assets	(1)	(57)	(3)	(3)	(5)
Other	(4)	5	(2)	5	11
Cash flow from financing	(12)	11	(9)	(22)	(10)
Change in debt	1	40	(11)	(18)	9
Change in equity	(0)	4	0	0	0
Dividends	(5)	(7)	(9)	(8)	(8)
Other	(8)	(26)	10	4	(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
Gross cash flow	25	35	21	27	31
Free cash flow	30	37	(0)	18	9

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
Current assets	151	209	211	208	232
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	113	107	109
Fixed assets	59	130	131	134	140
Investment assets	22	16	9	3	(3)
Tangible assets	22	23	31	41	53
Intangible assets	6	3	3	3	3
Other long-term assets	10	88	88	88	88
Total assets	210	338	342	343	371
Current liabilities	103	142	159	147	162
Accounts payable	0	0	0	0	0
Short-term debt	0	14	23	6	15
Other current liabilities	103	128	136	142	147
Long-term liabilities	5	33	13	13	13
Bonds & long-term debt	2	30	10	10	10
Other long-term liabilities	2	3	3	3	3
Total liabilities	108	175	172	161	175
Owners of parent equity	103	135	142	154	168
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	122	134	148
Other	(28)	(19)	(19)	(19)	(19)
Non-controlling interests' equity	(1)	28	28	28	28
Total equity	103	163	170	182	196
Net debt	(97)	(100)	(105)	(133)	(135)

Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	16.0	22.7	29.3	8.1	7.3
Operating profit	22.3	59.6	(38.5)	33.0	10.0
Net profit	23.8	52.4	(42.2)	37.3	11.1
Adjusted EPS**	26.5	65.3	(37.3)	32.5	9.1
Per-share data (KRW)					
EPS (parent-based)	873	1,350	781	1,072	1,191
EPS (consolidated)	840	1,280	741	1,017	1,129
Adjusted EPS**	886	1,464	919	1,217	1,328
BVPS	5,272	7,379	7,770	8,432	9,213
DPS (common)	600	450	390	410	410
Valuations (x)					
P/E***	27.6	16.7	26.7	20.1	18.4
P/B***	4.6	3.3	3.2	2.9	2.7
EV/EBITDA	26.0	33.8	19.4	12.9	10.5
Ratios (%)					
ROE	15.7	18.2	8.4	10.9	11.3
ROA	8.1	8.8	4.1	5.6	6.0
ROIC	(128.4)	(103.2)	(151.6)	518.9	909.0
Payout ratio	41.2	33.9	56.0	40.8	37.1
Dividend yield (common)	1.7	1.9	1.6	1.7	1.7
Net debt to equity	(90.6)	(59.6)	(47.9)	(59.7)	(56.2)
Interest coverage (x)	46.2	66.1	10.1	21.2	28.4

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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

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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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