

Mode Tour (080160 KQ)

Kim Soo-min

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Rating

BUY

maintain

6M TP (₩)

32,000

maintain

CP (₩)
(19.01.03)**22,700**

Leisure

Spring will come

BUY; TP maintained at ₩32,000

- Our ₩32,000 target price for Mode Tour is equivalent to 22 times the 12-month forward EPS of ₩1,451.

Q4 OP likely slid 30% yoy to ₩3.9bn

- On a stand-alone basis, Mode Tour is forecast to log a 2% yoy increase in OP at ₩4.5bn. Subsidiaries are expected to slide into the red from a profit in the year-ago period, reporting a combined operating loss of ₩6.0mn for its most recent quarter.

- The travel agency is poised to see the number of tourists who used its service in the fourth quarter slip 1% yoy to 690,000 -- package tourists 390,000 (down 2% yoy) and air ticket sales 300,000 (up 1% yoy).

- Average selling prices (ASP) likely fell 5% yoy, reflecting the tough comparison with the year-prior period in which the company reported 11% growth thanks to strong seasonality and robust demand for lucrative long-haul travel offerings.

- SG&A expenses are forecast to have jumped further, following a 34% increase a year ago, due to TV commercials.

- Despite a low base of 4Q17, the China business is on track to report slower growth in 4Q18, affected by the particularly weak seasonal demand in December last year. Meanwhile, the Europe business likely extended its healthy growth streak (up 17%) on strong demand for Spain tours that was buoyed by increased flights and popular TV travel shows featuring the country. As for the Americas, the business was impacted (down 28%) by flight reductions on key routes such as Hawaii. This, however, will recover gradually as airlines add flights to those routes. Growth in the South Pacific region and Japan likely contracted 24% and 26%, respectively, while the Southeast Asia business expanded 1%.

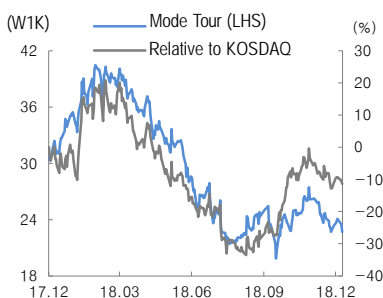
- Air ticket sales returned to growth (up 3% yoy) for the first time in eight months in December, aided by demand from younger tourists who tend to prefer individual tours to package tours.

- Monthly travel bookings for 1Q19 are as follows: down 16% for January (up 4%p mom), up 20% for February (down 10%p mom) and down 10% for March.

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	657.02
Market cap (₩bn)	429
Market cap portion (%)	0.19
Paid-in capital (common; ₩bn)	9
52w high/low (₩)	40,450 / 19,850
120d avg. trading volume (₩bn)	5.7
Foreign ownership (%)	27.66
Major shareholders	Woo Jong-woong+15: 15.46% KB Asset Management: 9.43%

(%)	1M	3M	6M	12M
Abs. return	-11.8	-3.8	-11.5	-28.2
Rel. return	-4.8	16.4	7.2	-10.1



	4Q17	3Q18	Previous estimate	Daishin estimate	4Q18(F)			1Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	77	97	95	94	22.6	-3.0	93	109	-0.4	15.9
OP	6	3	4	4	-31.2	54.9	4	10	10.7	159.8
NP	4	1	3	3	20.0	183.8	4	9	7.3	13.0

Source: Mode Tour, FnGuide, Daishin Securities Research Center

Operating results and major financial data

(₩bn, ₩, x, %)

	2016A	2017A	2018F	2019F	2020F
Revenue	237	291	385	419	452
OP	20	32	20	31	36
Pretax profit	23	33	26	36	38
NP (contr. int.)	17	24	19	27	29
EPS	1,330	1,279	1,023	1,444	1,538
PER	21.8	23.8	22.2	15.7	14.8
BPS	8,207	7,134	7,724	8,807	9,871
PBR	3.5	4.3	2.9	2.6	2.3
ROE	16.5	20.3	13.8	17.5	16.5

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

Source: Mode Tour, Daishin Securities Research Center

2019 preview: Revenue W418.5bn (up 9% yoy), OP W31.2bn (up 60% yoy)

- Mode Tour's full-year OP in 2019 is forecast to expand 30% yoy to W30.2bn, helped by an estimated 10% growth in the package tour business. The company will likely deliver relatively stable results compared to peers, thanks to a small exposure to Japan's struggling tourism industry.
- Its ASP is expected to dip 2% yoy in that year. The company fetches almost even ASPs across its short-haul businesses, meaning less volatility in the face of ups and downs among different regions.
- Subsidiaries are forecast to swing back to profit in 2019, with a combined OP estimated at W1bn.
 - **Jau Tour.** The travel operator's operating loss will likely narrow to W500mn in 2019 from an estimated W1.3bn in 2018 thanks to the continued top-line growth in the short-haul business.
 - **Mode Stay.** The lodging service provider will likely see its ADR (average daily rate) bounce back to normal levels amid a pickup in inbound tourism. The increased cost burden following the launch of a new location in 2Q18 will ease. In all, its operating loss is expected to halve from an estimated W2.4bn in 2018 to W1.2bn in 2019.
 - **Mode Tour Japan.** The Japanese operation, which became a consolidated subsidiary in 1Q18, will likely break even in 2018 and report OP of W700bn in 2019 thanks to a recovery in Japan's tourism industry.
 - **Mode Tour REIT.** The real-estate investment arm will contribute around W2bn a year to Mode Tour's OP steadily.
 - Mode Tour plans to sell its hotel training school, which incurs around W1bn operating loss annually.

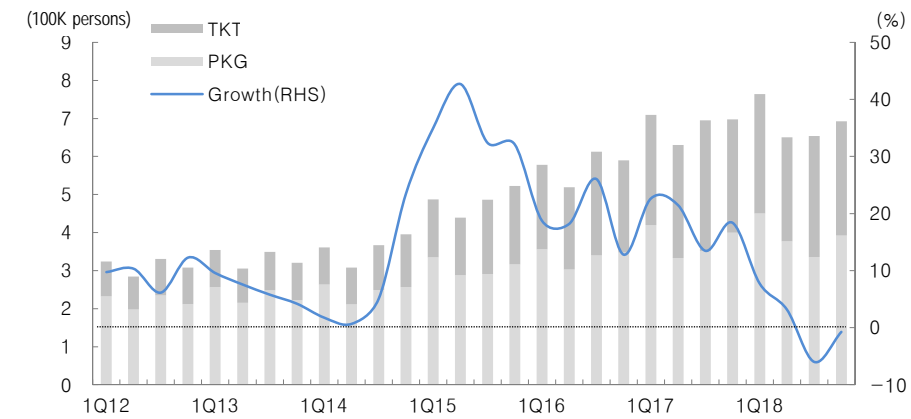
Earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	385	421	385	419	-0.1	-0.6
Selling & adm. expense	267	278	266	277	-0.1	-0.4
OP	20	32	20	31	0.0	-2.4
OP margin	5.1	7.6	5.1	7.5	0.0	-0.1
Non-operating profit	7	4	7	4	0.0	7.5
Pretax profit	26	36	26	36	0.0	-1.3
NP (controlling int.)	19	28	19	27	0.0	-1.1
NP margin	5.0	6.6	5.0	6.6	0.0	0.0
EPS (controlling int.)	1,024	1,459	1,023	1,444	0.0	-1.1

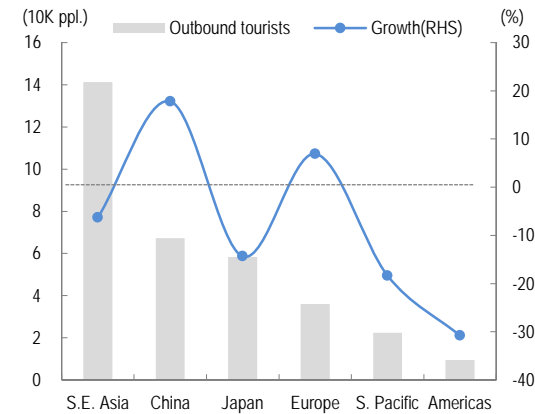
Source: Mode Tour, Daishin Securities Research Center

Fig 1. Tourist departures: Mode Tour



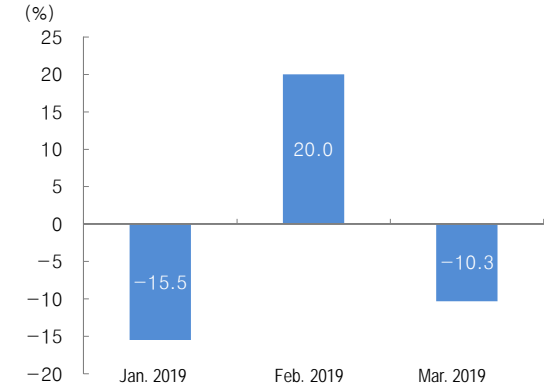
Source: Mode Tour, Daishin Securities Research Center

Fig 2. Outbound package tourists by region (4Q18)



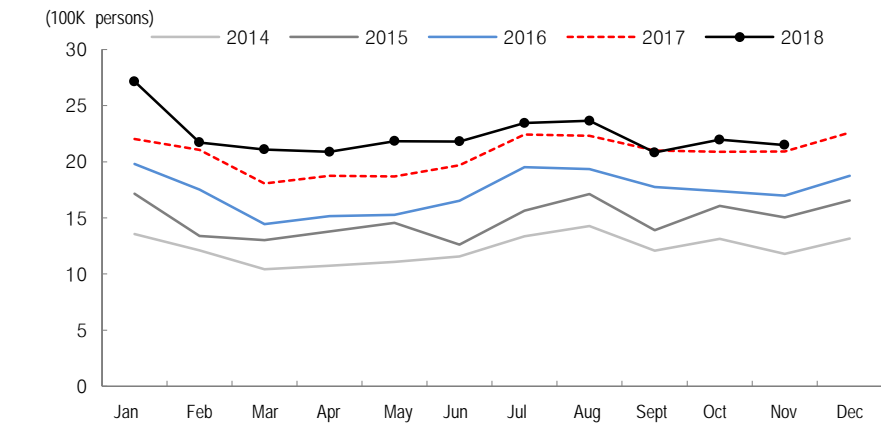
Source: Mode Tour, Daishin Securities Research Center

Fig 3. Mode Tour's booking rates



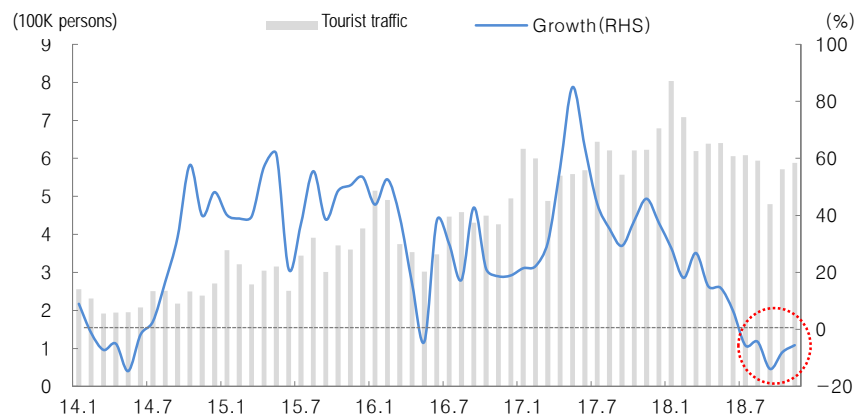
Source: Mode Tour, Daishin Securities Research Center

Fig 4. Net tourist departures



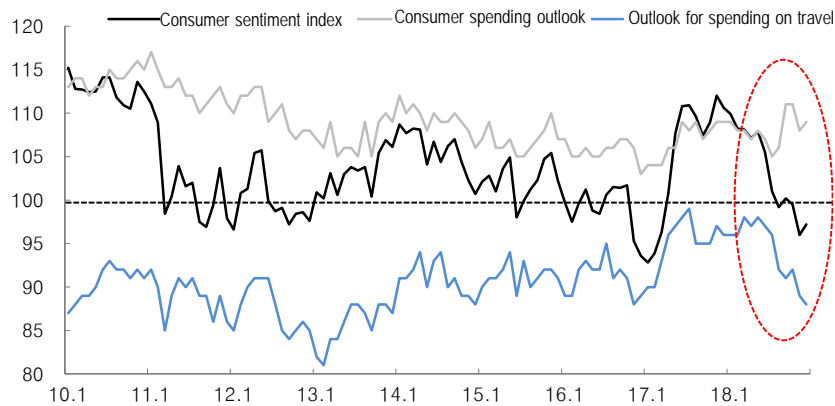
Source: Korea Tourism Organization, Daishin Securities Research Center

Fig 5. Number of Korean tourists visiting Japan



Source: Japan Tourism Organization, Daishin Securities Research Center

Fig 6. Key consumption data



Source: Bank of Korea, Daishin Securities Research Center

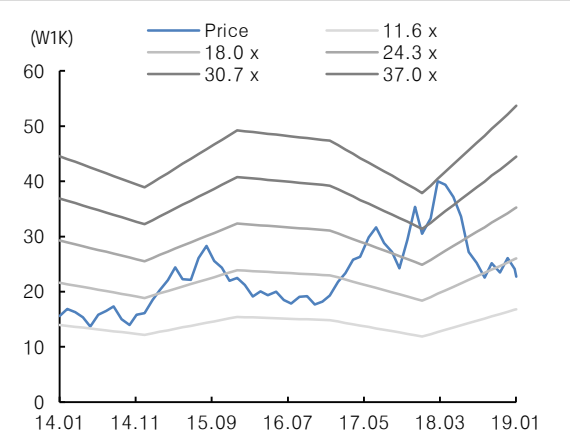
Tab 1. Earnings trend

(Wbn, %)

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18E	2016	2017	2018E	2019E
Revenue	74	67	73	77	110	83	97	94	237	291	385	419
chg %	24	24	13	30	48	24	34	23	16	23	32	9
Stand-alone	64	57	62	65	94	70	82	79	206	249	326	346
Subsidiaries	10	10	10	12	16	13	15	15	31	42	59	73
OP	11	7	8	6	9	4	3	4	20	32	20	31
chg %	155	100	(2)	45	(17)	(46)	(69)	(30)	22	59	(39)	60
Stand-alone	12	8	9	4	11	5	4	5	25	33	23	30
Subsidiaries	(1)	(1)	(1)	1	(1)	(1)	(1)	(1)	(5)	(1)	(4)	1
NI Controlling	8	6	6	4	7	7	1	3	17	24	19	27
chg %	130	72	(15)	45	(8)	22	(80)	(20)	27	44	(20)	41

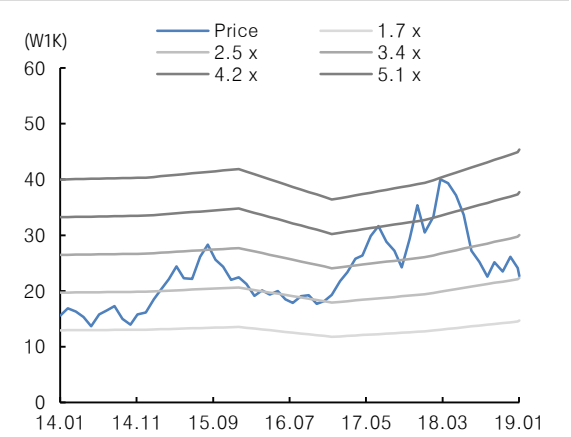
Source: Mode Tour, Daishin Securities Research Center

Fig 7. 12M Forward PER



Source: Mode Tour, Wisefn, Daishin Securities Research Center

Fig 8. 12M Forward PBR



Source: Mode Tour, Wisefn, Daishin Securities Research Center

Company profile

Overview

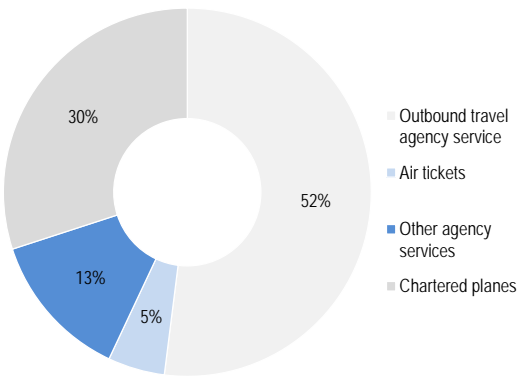
- A wholesale travel agency
- Annual outbound tourist volume: 2.73 million (1.5 million package tourists and 1.23 million air ticket purchasers)
- 2017 consolidated results: Revenue W290.9bn, OP W32.1bn, NP W24.2bn
- Non-consolidated revenue breakdown (as of 2017)
- Outbound travel agency service 84%, 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
- Reservation rates will improve over time, led by demand for offers to nearby destinations; the current valuation of 16x 2019E EPS looks compelling considering the limited 4Q18 earnings volatility and recovering operating conditions

Source: Mode Tour, Daishin Securities Research Center

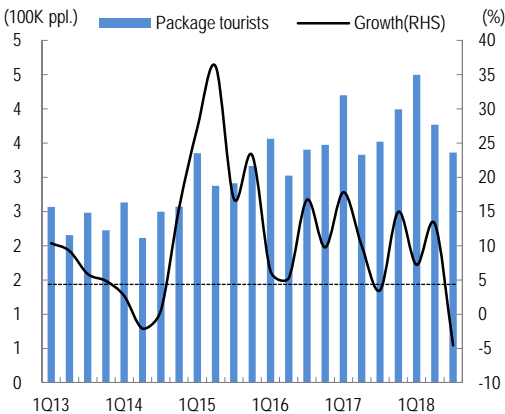
Revenue by business (As of 3Q18)



Source: Mode Tour, Daishin Securities Research Center

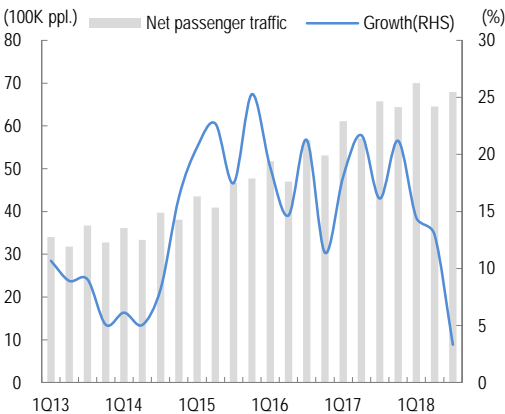
Earnings drivers

Fig 9. Mode Tour package tourists



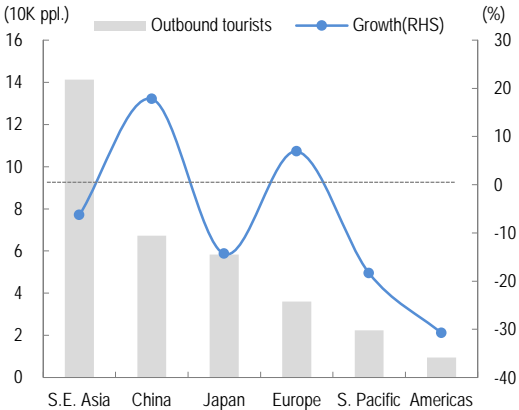
Source: Mode Tour, Daishin Securities Research Center

Fig 10. Net passenger traffic (3Q18)



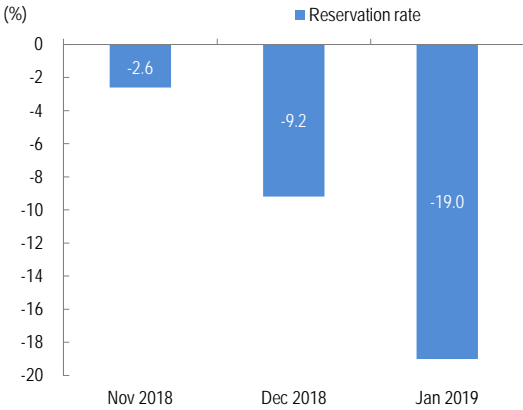
Source: Mode Tour, Daishin Securities Research Center

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

Financial statements

Income statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Revenue	237	291	385	419	452
Cost of goods sold	11	11	99	110	116
Gross profit	226	280	286	308	336
S&A expenses	206	248	266	277	301
OP	20	32	20	31	36
OP margin	8.5	11.0	5.1	7.5	7.9
EBITDA	23	35	22	34	38
Non-OP	3	1	7	4	2
Income from affiliates	2	3	2	2	2
Financial revenue	2	1	2	2	2
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	26	36	38
Income tax expense	-7	-9	-7	-8	-8
Income from cont. op.	16	24	19	28	29
Income from discount op.	0	0	0	0	0
NP	16	24	19	28	29
NP margin	6.7	8.3	5.0	6.6	6.5
NP for non-contr. interest	-1	0	0	0	0
NP for contr. interest	17	24	19	27	29
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	16	24	19	27	29
Comp. income for non-contr. int.	-1	0	0	0	0
Comp. income for contr. int.	16	24	19	27	29

Valuation metrics (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
EPS	1,330	1,279	1,023	1,444	1,538
PER	21.8	23.8	22.2	15.7	14.8
BPS	8,207	7,134	7,724	8,807	9,871
PBR	3.5	4.3	2.9	2.6	2.3
EBITDAPS	1,820	1,860	1,166	1,775	2,001
EV/EBITDA	11.7	14.4	16.6	10.6	9.1
SPS	18,816	15,394	20,368	22,145	23,920
PSR	1.5	2.0	1.2	1.1	1.0
CFPS	1,993	1,859	1,359	1,838	1,943
DPS	600	450	380	500	600

Financial ratios (W, x, %)					
	2016A	2017A	2018F	2019F	2020F
Growth potential					
Revenue growth	16.0	22.7	32.3	8.7	8.0
OP growth	22.3	59.6	-39.3	60.1	14.2
NP growth	23.8	52.4	-19.9	42.1	6.0
Profitability					
ROIC	48.5	83.8	43.0	57.9	60.2
ROA	10.2	11.7	5.6	8.6	9.2
ROE	16.5	20.3	13.8	17.5	16.5
Stability					
Debt ratio	104.9	107.5	102.6	92.9	85.3
Net borrowings ratio	-92.5	-60.8	-52.5	-52.4	-52.1
Interest coverage ratio	46.2	66.1	39.8	61.0	66.7

Source: Mode Tour, Daishin Securities Research Center

Balance sheet (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Current assets	151	209	218	236	253
Cash & cash equiv.	58	53	49	62	74
Trade & other receive.	39	45	59	64	69
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	353	376	398
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	146	166	187
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	126	147	167
Other capital changes	-28	-19	-19	-19	-19
Non-controlling interest	-1	28	28	28	28
Total shareholder's equity	103	163	174	195	215
Net borrowings	-95	-99	-92	-102	-112

Cash flow statement (Wbn)					
	2016A	2017A	2018F	2019F	2020F
Operating cash flows	32	38	20	37	39
NP	16	24	19	28	29
Non-cash items	9	11	6	7	8
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	5	5
Chg in assets & liab.	12	12	0	9	9
Other cash flows	-5	-9	-5	-7	-7
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	-5	-7
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	-7	-9
Others	-9	16	1	0	0
Net chg in cash	14	-5	-4	13	12
Beginning cash balance	45	58	53	49	62
Ending cash balance	58	53	49	62	74
NOPLAT	14	24	14	24	28
FCF	15	25	15	25	28

[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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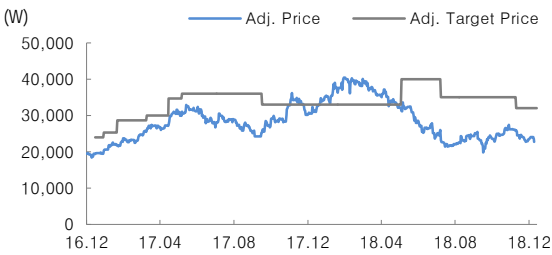
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[Investment rating & Target price history]

Mode Tour (080160 KQ)



Date	19.01.04	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	32,000	35,000	40,000	33,000	33,000	36,000
Diff. (avr. %)		(32.12)	(30.19)	4.66	3.39	(22.68)
Diff. (max/min, %)		(21.57)	(15.88)	(5.45)	22.58	(15.28)

Date	17.06.01	17.05.10	17.04.04	17.02.14	17.01.23	17.01.09
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)	(18.25)
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 (Jan 1, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	85.4%	13.5%	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.