

2019. 1. 21

Company Update



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AT A GLANCE

SELL **HOLD** BUY

Target price KRW26,000 (3.4%)

Current price KRW25,150

Market cap KRW475.34b/USD423.69m

Shares (float) 18,900,000 (78.6%)

52-week high/low KRW40,450/KRW19,850

Avg daily trading value (60-day) KRW4.7b/USD4.2m

ONE-YEAR PERFORMANCE

	1M	6M	12M
Mode Tour Network (%)	7.9	-9.9	-25.8
Vs Kosdaq (%pts)	2.3	4.9	-4.3

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	HOLD	HOLD	
Target price	26,000	26,000	0.0%
2018E EPS	897	919	-2.3%
2019E EPS	1,283	1,217	5.5%

SAMSUNG vs THE STREET

No of estimates	10
Target price	28,650
Recommendation	3.8

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

Mode Tour Network (080160)

Poor 4Q results a done deal

- We believe that Mode Tour Network's sales and operating profit in 4Q reached a respective KRW91.3b and KRW3.7b (down 35% y-y), with both meeting consensus.
- We see little earnings momentum at present given that: 1) the slowdown in Korea's outbound demand growth should continue into 1H20; and 2) we have yet to see a meaningful rebound in advance bookings in 1Q19. All in all, the shares are likely to remain within a narrow band for some time.
- We maintain our 2019 earnings estimates, DCF valuation-based target price of KRW26,000, and HOLD rating.

WHAT'S THE STORY?

4Q preview: We believe that Mode Tour Network's 4Q sales and operating profit hit a respective KRW91.3b and KRW3.7b (down 35% y-y), with both figures meeting consensus. The parent likely saw a slight hike in earnings on a fall in SG&A costs, which we attribute to base effect (its SG&A costs rose 34% y-y in 4Q17 on a hike in one-off costs) rather than to structural improvements. Among its consolidated subsidiaries, Jau Tour likely made a KRW400m loss (widening q-q), and Mode Stay's loss likely proved similar q-q due to a continued fixed-cost burden in relation to the opening of a hotel in Ulsan.

Momentum to be lacking for some time: The firm's advance booking figures remain weak, though its February numbers benefited from a low base relating to the 2018 Pyeongchang Winter Olympics. According to company data, which was released on Jan 2, its January and March reservation ratios are down a respective 15.5% and 10.3% y-y, while its February figure are up 20% y-y. Meanwhile, Korea's outbound demand growth will likely slow to 5% in 1H19, and FIT demand—which is being led by young travelers—is expected to outpace package tour demand (in terms of y-y growth). With earnings-related momentum lacking, the shares should remain stuck in a narrow trading range for the time being. We fine-tune our 2019 sales and operating profit forecasts, and maintain our target price of KRW26,000 (based on a DCF valuation) and HOLD rating.

SUMMARY FINANCIAL DATA

	2017	2018E	2019E	2020E
Revenue (KRWb)	290.9	381.8	416.2	444.3
Operating profit (KRWb)	32.1	19.3	28.4	32.4
Net profit (adj) (KRWb)	24.2	13.6	20.4	23.5
EPS (adj) (KRW)	1,464	897	1,283	1,453
EPS (adj) growth (% y-y)	65.3	(38.7)	43.0	13.2
EBITDA margin (%)	12.1	6.2	8.1	8.8
ROE (%)	18.2	8.2	11.6	12.3
P/E (adj) (x)	16.7	27.3	19.1	16.9
P/B (x)	3.3	3.2	2.9	2.6
EV/EBITDA (x)	33.8	19.4	12.9	10.5
Dividend yield (%)	1.8	1.6	1.6	1.6

Source: Company data, Samsung Securities estimates

Quarterly and full-year forecast comparison

(KRWb)	4Q18E	% y-y	% q-q	4Q18E Consensus	Diff (%)	2018E	2019E	Chg. (% y-y)	2019E Consensus	Diff (%)
Sales	91.3	n/a*	(6.2)	92.8	(1.7)	381.8	416.2	9.0	423.4	(1.7)
Operating profit	3.7	(35.1)	46.0	3.8	(4.3)	19.3	28.4	47.2	30.2	(6.0)
Pre-tax profit	2.7	(46.7)	5.2	3.7	(26.9)	18.9	28.3	49.5	32.6	(13.2)
Net profit	1.9	(55.1)	55.4	3.2	(40.3)	13.6	20.4	49.5	24.5	(16.7)
Operating margin (%)	4.0					5.1	6.8			
Pre-tax margin (%)	3.0					5.0	6.8			
Net margin (%)	2.1					3.6	4.9			

Note: * New accounting rules took effect in 2018

Source: Company data, WiseFn, Samsung Securities estimates

Mode Tour: Quarterly earnings and estimates

(KRWb)	1Q18	2Q18	3Q18	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	2017	2018E	2019E	2020E
Korean outbound demand ('000 people)	6,997	6,453	6,791	6,631	7,277	6,808	7,606	7,170	24,837	26,898	28,889	30,622
Market share (%)	10.9	10.1	9.6	10.4	10.6	9.9	10.3	10.8	11.0	10.3	10.4	10.5
Mode Tour outbound demand ('000 people)	764	650	654	693	769	676	780	771	2,733	2,761	2,996	3,209
Package	450	377	336	392	445	386	415	424	1,504	1,555	1,670	1,770
Ticket	314	274	318	300	323	290	366	347	1,229	1,206	1,327	1,439
Gross sales	551	456	492	492	541	484	551	548	1,967	1,991	2,124	2,254
Package	392	325	315	338	379	336	371	378	1,352	1,370	1,464	1,551
Ticket	159	131	177	154	162	148	180	170	615	621	661	702
Package sales conversion ratio (%)*	19.7	17.8	21.6	18.5	19.8	17.5	20.5	18.4	11.4	14.2	14.0	13.8
Net sales	109.8	83.4	97.3	91.3	110.3	90.1	112.7	103.1	291	382	416	444
Parent-based	94.3	70.4	82.3	77.4	92.1	74.5	92.7	86.0	249	324	345	364
Subsidiaries	15.5	13.0	15.0	13.9	18.2	15.5	19.9	17.1	42	57	71	80
Operating profit	9.1	4.0	2.5	3.7	7.4	4.9	9.3	6.8	32	19	28	32
Parent-based	10.5	4.6	3.6	4.6	8.5	4.8	9.0	7.0	33	23	29	31
Subsidiaries	(1.4)	(0.6)	(1.1)	(1.0)	(1.1)	0.1	0.3	(0.2)	(1)	(4)	(1)	2
Operating margin (%)	8.3	4.8	2.6	4.0	6.7	5.4	8.2	6.6	11.0	5.1	6.8	7.3
Parent-based	11.2	6.6	4.4	6.0	9.3	6.5	9.7	8.2	13.2	7.2	8.5	8.5
Subsidiaries	(2.9)	(1.8)	(1.8)	(2.0)	(2.5)	(1.1)	(1.4)	(1.6)	(1.9)	(7.2)	(1.4)	1.9
Growth (% y-y)												
Korean outbound demand	14.4	13.0	3.3	3.0	4.0	5.5	12.0	8.1	19.2	8.3	7.4	6.0
Mode Tour outbound demand	7.7	3.2	(6.0)	(0.7)	0.6	4.0	19.4	11.3	18.8	1.0	8.5	7.1
Package	7.2	13.2	(4.6)	(1.8)	(1.0)	2.5	23.5	8.0	11.7	3.4	7.4	6.0
Ticket	8.5	(8.0)	(7.5)	0.6	3.0	6.0	15.0	15.7	28.9	(1.9)	10.0	8.5
Gross sales	8.3	2.1	(3.3)	(2.1)	(1.8)	6.1	12.1	11.4	21.1	1.2	6.7	6.1
Package	7.1	6.4	(4.8)	(3.4)	(3.4)	3.4	17.9	11.7	18.4	1.3	6.9	6.0
Ticket	11.3	(7.3)	(0.6)	1.0	1.9	12.7	1.8	10.6	27.6	1.0	6.3	6.3
Net sales	48.4	24.0	33.9	18.5	0.4	8.0	15.8	13.0	22.7	31.2	9.0	6.8
Parent-based	46.6	22.9	31.7	18.6	(2.4)	5.8	12.7	11.2	21.1	30.1	6.5	5.4
Subsidiaries	60.3	30.5	47.3	18.3	17.3	19.4	32.5	23.3	33.1	38.1	23.2	13.2
Operating profit	(17.1)	(45.6)	(69.2)	(35.1)	(18.8)	23.1	268.4	86.0	59.6	(40.0)	47.2	14.3
Parent-based	(10.3)	(41.3)	(59.0)	3.6	(19.1)	4.8	147.3	52.4	29.1	(28.9)	25.5	5.3
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

Full-year forecast revisions

(KRWb)	2017	New		Old		Diff (%)	
		2018E	2019E	2018E	2019E	2018E	2019E
Sales	290.9	381.8	416.2	376.3	406.9	1.5	2.3
Operating profit	32.1	19.3	28.4	19.7	26.3	(2.1)	7.9
Pre-tax profit	32.9	18.9	28.3	19.4	26.7	(2.5)	6.0
Net profit	24.2	13.6	20.4	14.0	19.2	(2.7)	6.1
EPS (KRW)	1,464	897	1,283	919	1,217	(2.3)	5.5

Source: Company data, Samsung Securities estimates

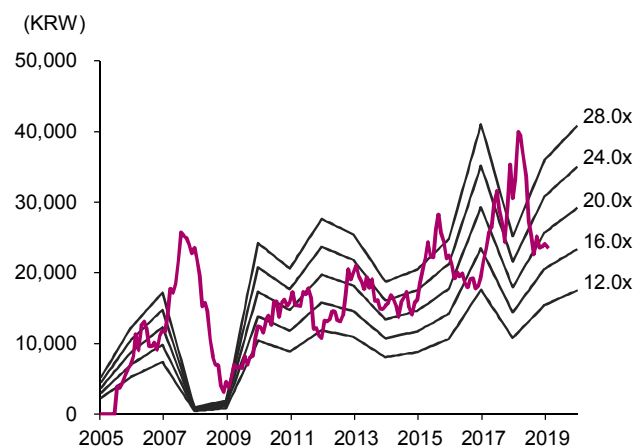
Mode Tour network: DCF valuation

(KRWb)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	19	28	32	33	34	34	35	36	37	37
Tax	6	10	10	10	10	10	11	11	11	11
Capex	4	5	5	5	5	5	5	5	6	6
Change in working capital	26	-17	8	9	9	9	9	9	9	9
Depreciation	4	5	6	6	6	7	7	7	7	7
Amortization	1	1	1	1	1	1	1	1	1	1
Free cash flow	-12	35	16	16	17	17	18	18	18	19
Terminal value	502									
Terminal growth (%)	2.0									
NPV of FCFF	117									
PV of terminal value	285									
Enterprise value	402									
Equity value (adjusted)**	500									
Shares outstanding	18,900									
Fair value per share (KRW)	26,454									
Current share price (KRW)*	24,850									
Upside (%)	6.5									

Note: *As of Jan 17 close

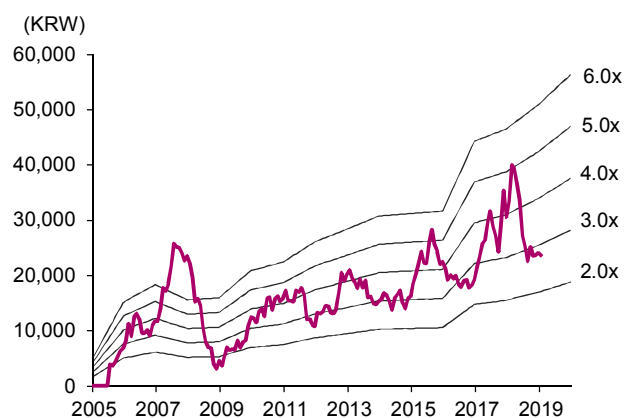
Source: Company data, Samsung Securities estimates

12-month forward P/E band



Source: WiseFn, Samsung Securities

12-month forward P/B band



Source: WiseFn, Samsung Securities

Valuation summary

As end of	Sales	Operating profit	Pre-tax profit	Net profit	EPS	EPS growth	P/E	P/B	ROE	EV/EBITDA	Net debt
Dec 31	(KRWb)	(KRWb)	(KRWb)	(KRWb)	(KRW)*	(%)	(x)	(x)	(%)	(x)	(KRWb)
2015	204.3	16.5	18.0	12.8	729	9.2	33.6	4.7	12.3	9.97	(66)
2016	237.1	20.1	22.9	15.9	886	21.5	27.6	4.6	15.7	8.49	(97)
2017	290.9	32.1	32.9	24.2	1,464	65.3	16.7	3.3	18.2	5.54	(100)
2018E	381.8	19.3	18.9	13.6	897	(38.7)	27.3	3.2	8.2	8.21	(102)
2019E	416.2	28.4	28.3	20.4	1,283	43.0	19.1	2.9	11.6	5.76	(128)
2020E	444.3	32.4	32.7	23.5	1,453	13.2	16.9	2.6	12.3	4.96	(131)

Note: * Fully diluted, excluding one-off items

Source: Company data, Samsung Securities

Income statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Sales	237.1	290.9	381.8	416.2	444.3
Cost of goods sold	11.2	10.9	89.9	93.4	98.4
Gross profit	225.9	280.0	292.0	322.7	345.9
Gross margin (%)	95.3	96.2	76.5	77.6	77.8
SG&A expenses	205.8	247.9	272.7	294.4	313.4
Operating profit	20.1	32.1	19.3	28.4	32.4
Operating margin (%)	8.5	11.0	5.1	6.8	7.3
Non-operating gains (losses)	2.8	0.8	(0.4)	(0.1)	0.2
Financial profit	1.6	1.5	1.7	1.8	1.9
Financial costs	0.4	0.8	2.0	1.8	1.6
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	18.9	28.3	32.7
Taxes	7.0	8.7	5.3	7.9	9.1
Effective tax rate (%)	30.7	26.4	28.0	28.0	28.0
Profit from continuing operations	15.9	24.2	13.6	20.4	23.5
Profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	15.9	24.2	13.6	20.4	23.5
Net margin (%)	6.7	8.3	3.6	4.9	5.3
Net profit (controlling interests)	16.8	24.2	14.0	20.9	24.0
Net profit (non-controlling interests)	(0.9)	0.0	(0.4)	(0.6)	(0.4)
EBITDA	22.9	35.2	23.7	33.8	39.2
EBITDA margin (%)	9.7	12.1	6.2	8.1	8.8
EPS (parent-based) (KRW)	873	1,350	760	1,137	1,313
EPS (consolidated) (KRW)	840	1,280	721	1,078	1,245
Adjusted EPS (KRW)*	886	1,464	897	1,283	1,453

Cash flow statement

Year-end Dec 31(KRWb)	2016	2017	2018E	2019E	2020E
Cash flow from operations	32	38	3	23	16
Net profit	16	24	14	20	24
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	3	3
Changes in A/L from operating activities	12	12	(0)	37	46
Cash flow from investments	(6)	(54)	(3)	3	7
Change in tangible assets	(1)	(1)	3	2	1
Change in financial assets	(1)	(57)	(3)	(3)	(5)
Other	(4)	5	(4)	5	11
Cash flow from financing	(12)	11	(6)	(17)	(15)
Change in debt	1	40	(9)	(12)	6
Change in equity	(0)	4	0	0	0
Dividends	(5)	(7)	(9)	(8)	(8)
Other	(8)	(26)	12	4	(12)
Change in cash	14	(5)	(7)	10	8
Cash at beginning of year	45	58	53	46	56
Cash at end of year	58	53	46	56	64
Gross cash flow	25	35	21	28	33
Free cash flow	30	37	(1)	18	11

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	216	220	242
Cash & equivalents	58	53	46	56	64
Accounts receivable	31	43	50	50	63
Inventories	0	0	4	2	0
Other current assets	62	113	116	112	115
Fixed assets	59	130	130	133	138
Investment assets	22	16	9	3	(3)
Tangible assets	22	23	30	40	51
Intangible assets	6	3	3	3	3
Other long-term assets	10	88	88	88	88
Total assets	210	338	345	353	380
Current liabilities	103	142	162	157	168
Accounts payable	0	0	0	0	0
Short-term debt	0	14	26	13	19
Other current liabilities	103	128	137	144	149
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	176	170	182
Owners of parent equity	103	135	141	154	171
Capital stock	6	9	9	9	9
Capital surplus	28	29	29	29	29
Retained earnings	98	115	122	135	151
Other	(28)	(19)	(19)	(19)	(19)
Non-controlling interests' equity	(1)	28	28	28	28
Total equity	103	163	170	183	199
Net debt	(97)	(100)	(102)	(128)	(131)

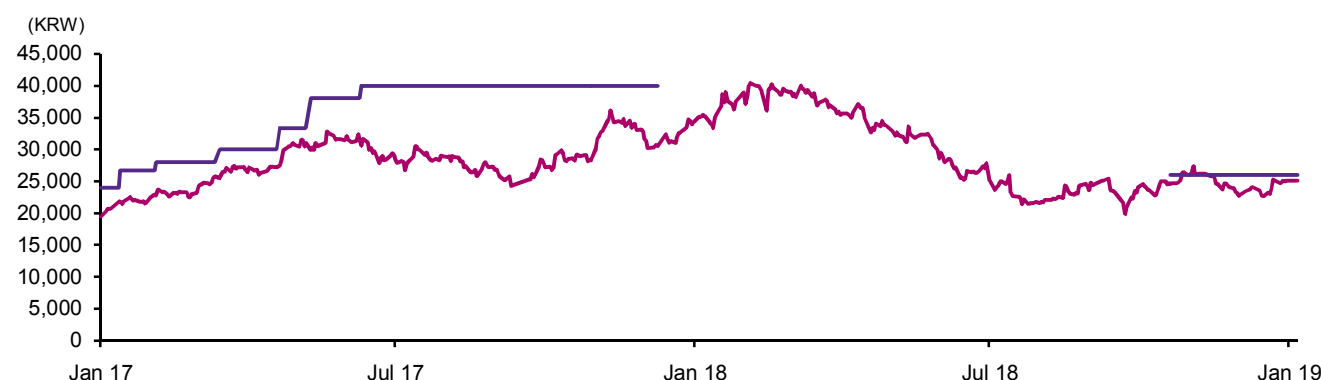
Financial ratios

Year-end Dec 31	2016	2017	2018E	2019E	2020E
Growth (%)					
Sales	16.0	22.7	31.2	9.0	6.8
Operating profit	22.3	59.6	(40.0)	47.2	14.3
Net profit	23.8	52.4	(43.7)	49.5	15.5
Adjusted EPS**	26.5	65.3	(38.7)	43.0	13.2
Per-share data (KRW)					
EPS (parent-based)	873	1,350	760	1,137	1,313
EPS (consolidated)	840	1,280	721	1,078	1,245
Adjusted EPS**	886	1,464	897	1,283	1,453
BVPS	5,272	7,379	7,749	8,476	9,378
DPS (common)	600	450	390	410	410
Valuations (x)					
P/E***	27.6	16.7	27.3	19.1	16.9
P/B***	4.6	3.3	3.2	2.9	2.6
EV/EBITDA	8.5	5.5	8.2	5.8	5.0
Ratios (%)					
ROE	15.7	18.2	8.2	11.6	12.3
ROA	8.1	8.8	4.0	5.8	6.4
ROIC	(128.4)	(103.2)	(164.8)	326.3	372.7
Payout ratio	41.2	33.9	57.5	38.5	33.6
Dividend yield (common)	1.6	1.8	1.6	1.6	1.6
Net debt to equity	(90.6)	(59.6)	(46.7)	(57.9)	(54.6)
Interest coverage (x)	46.2	66.1	9.6	15.9	20.5

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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 Dec 31, 2018

BUY (83.3%) | HOLD (16.7%) | SELL (0%)

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