

Mode Tour (080160 KQ)

Kim Soo-min

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Rating **BUY**
maintain

6M TP (₩) **30,000**
maintain

CP (₩)
(19.05.03) **23,300**

Leisure

Results better than feared; expectations for 2H19 remain intact

BUY and 6M TP of W30,000 maintained

- The target price of W30,000 is derived by applying a target P/E of 22x to the 12-month forward EPS of W1,342.

1Q19 review: revenue W92.3bn (down 15% yoy), OP W9.1bn (down 4% yoy)

- For 1Q19, Hana Tour logged OP of W9.1bn (down 4% yoy), beating our estimate (W7.5bn) and the market consensus (W7.8bn) by more than 20%, thanks to its cost control efforts and a reduction in losses at subsidiaries (from a combined loss of W1.4bn in 1Q18 to W0.1bn in 1Q19). Its non-consolidated OP of W9.3bn (down 10% yoy) also came in higher than our estimate (W8.1bn).

- Mode Tour's total outbound customers dipped 4% yoy in 1Q19, with number of purchasers of package tours and air tickets contracting 7% and 1% yoy, respectively. Deposits for package tours decreased 8% yoy due to a lower blended average selling price (down by about 2% yoy). Commission income from arranging overseas trips decreased 17% yoy, but this appears to be caused by toughened regulations on hard block arrangements, which cut about 40% of the volume on a yoy basis. On a standalone basis, however, the company only saw a 9% yoy drop in package tour revenue.

- Payroll costs and advertising & promotion expenses, which together account for 40% of the company's operating expenses, decreased 3% and 25% yoy, respectively. SG&A expenses dropped as much as 9% yoy thanks to tight cost controls and due to a high comparison base of 1Q18 when the company increased its TV ad spending. Meanwhile, the combined operating loss incurred by its subsidiaries sharply decreased yoy to W0.1bn as Jau Tour, a major subsidiary, reported a profit of W0.3bn in 1Q19, compared with a loss of W0.5bn in 1Q18. Together, its subsidiaries saw an 8% yoy decline in package tourists, but that was offset by solid sales of tour products for those visiting China and tight cost controls.

- On May 2, the government announced its decision to grant low cost carriers to operate more flights on Korea-China routes, allowing them to increase their share on those routes to 28% from the current 11%. This comes following the recent aviation talks, in which the two countries agreed to expand the number of routes by nine and the number of flights by 139 (to 588 from 449). The number of Korea-China routes operating out of airports outside Seoul and Incheon has also been increased by five. These developments are very positive, especially for Mode Tour which relies more heavily on the Chinese market than peers, as they will improve the supply situation through the diversification of routes, prices, and flight schedules, thereby creating new demand. (Compared to Hana Tour which only generates 13% of its revenue from China, Mode Tour and Jau Tour derive 19% and 40%, respectively.)

Outbound tourists in April 2019

- April 2019: Total outbound tourists up 2% yoy to 220,000, with number of purchasers of package tours at 130,000 (down 4% yoy) and air tickets at 100,000 (up 12% yoy)

- By region: Southeast Asia up 3% yoy; Japan down 33% yoy, China up 18% yoy, Europe up 7%, Americas down 19% yoy, South Pacific down 26% yoy

- Reservation rates for the next three months: May down 6.1% (down 2%p mom), June up 5.3% (down 15%p mom), and July up 9.8%

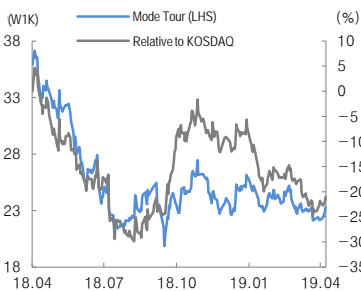
- 2019E consolidated revenue: W391.8bn (up 7% yoy), OP W29.5bn (up 78% yoy)

	1Q18	4Q18	Previous estimate	Result	1Q19			2Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	110	74	97	92	-15.4	24.1	103	98	17.1	5.8
OP	9	1	8	9	-3.5	823.3	7	6	56.9	-31.6
NP	8	1	6	8	7.7	1,684.1	6	9	235.1	-29.5

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	761.82
Market cap (Wbn)	440
Market cap portion (%)	0.17
Paid-in capital (common; Wbn)	9
52w high/low (₩)	36,550 / 19,850
120d avg. trading volume (Wbn)	4.2
Foreign ownership (%)	24.71
Major shareholders	Woo Jong-woong+14: 15.21% KB Asset Management: 6.34%

(%)	1M	3M	6M	12M
Abs. return	0.9	-7.5	-6.6	-36.3
Rel. return	-0.8	-13.0	-15.3	-27.5



Operating results and major financial data

(Wbn, W, x, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	372	365	392	422	454
OP	34	17	30	34	38
Pretax profit	35	16	30	35	41
NP (contr. int.)	25	13	24	28	32
EPS	1,316	664	1,251	1,469	1,717
PER	23.2	36.3	18.6	15.9	13.6
BPS	7,208	7,056	7,975	8,973	10,127
PBR	4.2	3.4	2.5	2.2	2.0
ROE	20.8	9.3	16.6	17.3	18.0

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

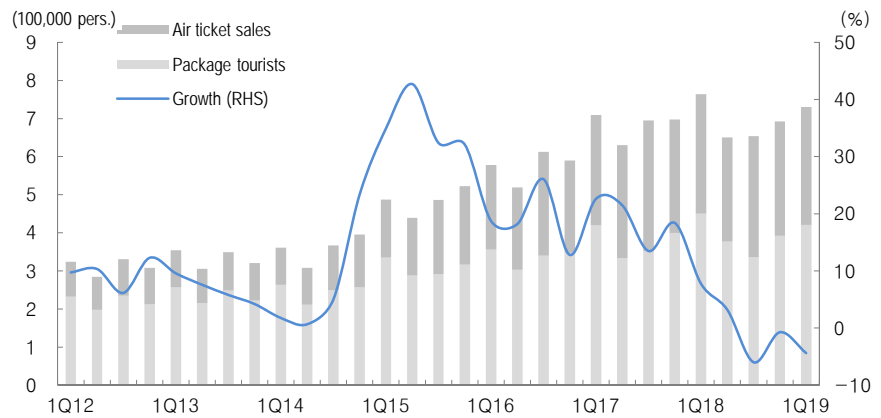
Yearly earnings forecast revision

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2019F	2020F	2019F	2020F	2019F	2020F
Revenue	389	416	392	422	0.8	1.6
SG&A expense	271	292	273	296	0.6	1.7
OP	27	30	30	34	10.3	13.5
OP margin	6.9	7.2	7.5	8.1	0.6	0.8
Non-operating profit	4	2	0	1	Reduced loss	-54.3
Pretax profit	31	32	30	35	-5.0	9.2
NP (controlling int.)	24	26	24	28	-2.6	8.7
NP margin	6.7	6.5	6.4	6.9	-0.4	0.4
EPS (controlling int.)	1,284	1,352	1,251	1,469	-2.6	8.7

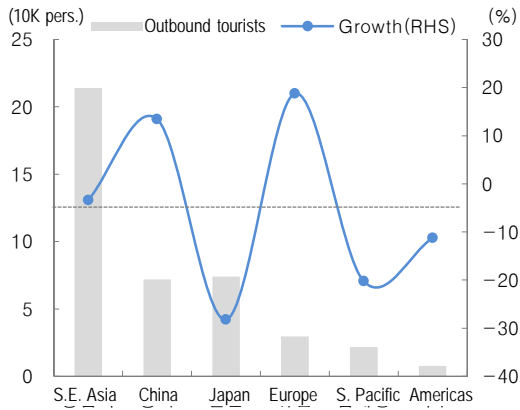
Source: Mode Tour, Daishin Securities Research Center

Fig 1. 1Q total outbound tourists -4% yoy, package tourists: -7% yoy, air ticket sales -1% yoy



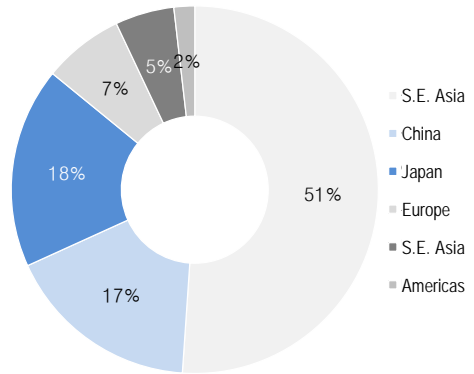
Source: Mode Tour, Daishin Securities Research Center

Fig 2. Outbound tourists by region (1Q19)



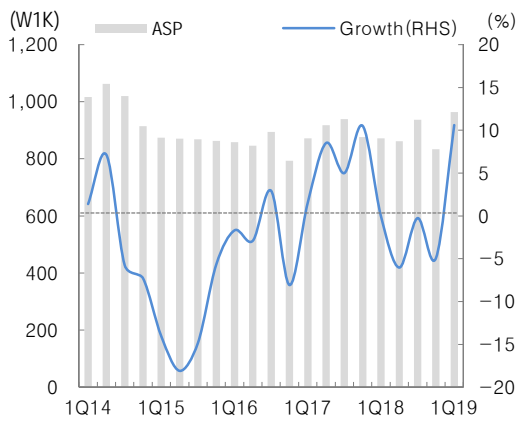
Source: Mode Tour, Daishin Securities Research Center

Fig 3. Package tourists by region (1Q19)



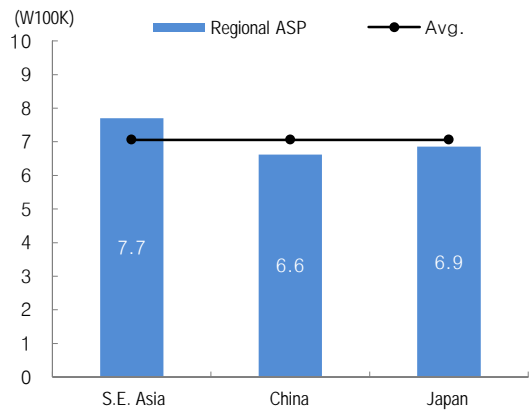
Source: Mode Tour, Daishin Securities Research Center

Fig 4. ASP of package tours



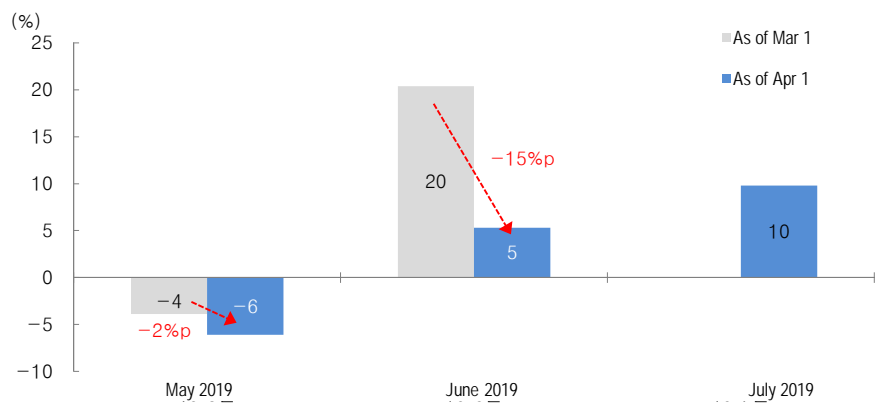
Source: Mode Tour, Daishin Securities Research Center

Fig 5. Regional ASP of package tours (1Q19)



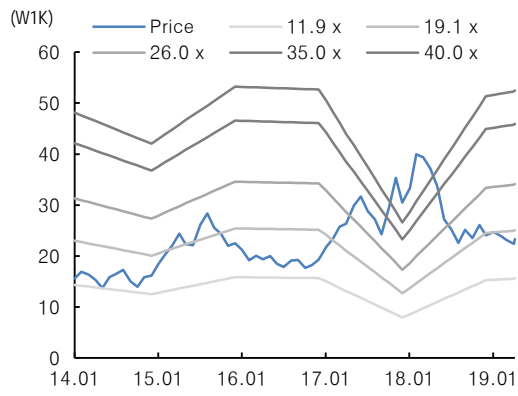
Source: Mode Tour, Daishin Securities Research Center

Fig 6. Mode Tour's reservation rates for next three months



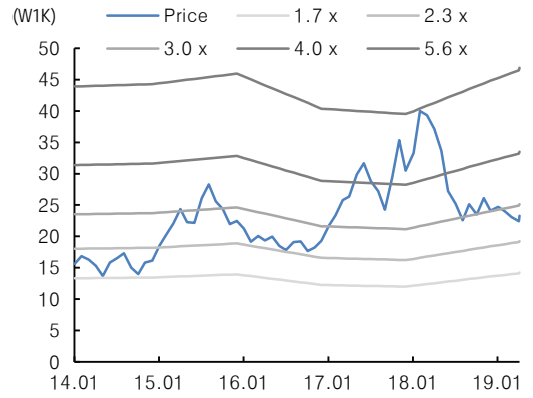
Source: Mode Tour, Daishin Securities Research Center

Fig 7. Mode Tour 12MF P/E band



Source: WiseFn, Daishin Securities Research Center

Fig 8. Mode Tour 12MF P/B band



Source: WiseFn, Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Revenue	372	365	392	422	454
Cost of goods sold	94	87	89	92	96
Gross profit	278	278	303	331	359
SG&A expenses	244	261	273	296	321
OP	34	17	30	34	38
OP margin	9.1	4.6	7.5	8.1	8.4
EBITDA	37	21	33	38	42
Non-OP	1	-1	0	1	3
Income from affiliates	3	0	2	2	2
Financial revenue	1	2	1	2	2
FX related gains	1	2	1	1	1
Financial expense	-1	-1	-1	-1	-1
FX related losses	0	0	0	0	0
Others	-3	-2	-2	-2	1
Income before taxes	35	16	30	35	41
Income tax expense	-9	-6	-7	-8	-9
Income from cont. op.	26	10	23	27	32
Income from discount. op.	-1	2	2	2	2
NP	25	12	25	29	34
NP margin	6.7	3.3	6.4	6.9	7.5
NP for non-conf. interest	0	0	1	1	2
NP for contr. interest	25	13	24	28	32
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	25	12	25	29	34
Comp. income for non-conf. int.	0	0	1	1	2
Comp. income for contr. int.	25	12	24	28	32

Valuation metrics	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
EPS	1,316	664	1,251	1,469	1,717
PER	23.2	36.3	18.6	15.9	13.6
BPS	7,208	7,056	7,975	8,973	10,127
PBR	4.2	3.4	2.5	2.2	2.0
EBITDAPS	1,956	1,090	1,757	1,995	2,197
EV/EBITDA	13.7	18.2	10.1	8.5	7.2
SPS	19,686	19,311	20,729	22,349	24,046
PSR	1.5	1.2	1.1	1.0	1.0
CFPS	1,906	1,270	2,070	2,333	2,668
DPS	450	350	500	600	650

Financial ratios	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Revenue growth	56.9	-1.9	7.3	7.8	7.6
OP growth	68.6	-51.1	77.8	15.6	11.5
NP growth	56.8	-51.1	104.4	17.3	16.8
Profitability					
ROIC	34.6	11.0	29.1	32.7	35.4
ROA	12.1	4.8	8.8	9.8	10.3
ROE	20.8	9.3	16.6	17.3	18.0
Stability					
Debt ratio	113.2	107.6	88.1	81.3	74.7
Net borrowings ratio	-60.3	-67.7	-74.3	-75.7	-77.1
Interest coverage ratio	82.0	11.9	31.8	33.3	33.9

Source: Mode Tour, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Current assets	221	201	211	234	260
Cash & cash equiv.	53	57	56	67	80
Trade & other receive.	47	29	31	33	35
Inventories	25	11	12	13	14
Other current assets	96	103	111	120	130
Long-term assets	130	134	125	124	123
Tangible assets	100	101	100	99	99
Investments in affiliates	8	7	6	5	4
Other long-term assets	21	27	19	20	20
Total assets	351	335	336	358	383
Current liabilities	153	147	114	102	89
Payables & other liab.	77	60	60	60	60
Borrowings	14	0	-13	-26	-39
Current portion of LT debts	1	23	3	3	3
Other current liabilities	61	64	64	64	64
Long-term liabilities	33	27	43	59	75
Borrowings	30	24	40	56	72
Convertible securities	0	0	0	0	0
Other long-term liab.	3	3	3	3	3
Total liabilities	186	173	157	160	164
Controlling interest	136	133	151	170	191
Capital stock	9	9	9	9	9
Capital surplus	29	29	29	29	29
Retained earnings	116	120	138	157	178
Other capital changes	-19	-26	-26	-26	-26
Non-controlling interest	28	28	28	28	28
Total shareholder's equity	164	161	179	197	219
Net borrowings	-99	-109	-133	-149	-169

Cash flow statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	38	34	31	35	40
NP	25	12	25	29	34
Non-cash items	11	12	14	15	16
Depreciation	3	4	4	4	3
FX gains	2	-1	0	0	0
Equity method gain	0	0	0	0	0
Others	6	9	11	12	13
Chg in assets & liab.	11	18	-1	-2	-2
Other cash flows	-9	-8	-7	-7	-9
Investing cash flow	-54	-18	-3	-12	-12
Investment assets	-13	-7	8	1	1
Tangible assets	-4	-3	-3	-3	-3
Others	-37	-8	-9	-9	-10
Financing cash flows	11	-13	-22	-6	-7
Short-term borrowings	0	-13	-13	-13	-13
Bonds payable	-2	17	17	17	17
Long-term borrowings	5	-1	-1	-1	-1
Rights offering	0	0	0	0	0
Cash dividends	-7	-9	-6	-9	-11
Others	16	-7	-19	0	0
Net chg in cash	-5	4	-1	11	13
Beginning cash balance	58	53	57	56	67
Ending cash balance	53	57	56	67	80
NOPLAT	25	11	23	26	29
FCF	25	12	24	27	30

[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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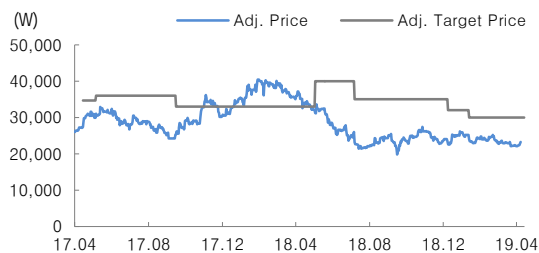
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[Investment rating & Target price history]

Mode Tour (080160 KQ)



Date	19.05.07	19.02.07	19.01.03	18.08.02	18.05.29	18.04.11
Rating	BUY	BUY	BUY	BUY	BUY	6M passed.
Target price	30,000	30,000	32,000	35,000	40,000	33,000
Diff. (avr. %)		(21.84)	(22.61)	(32.09)	(30.19)	4.66
Diff. (max./min., %)		(16.00)	(18.28)	(21.57)	(15.88)	(5.45)
Date	17.10.11	17.07.11	17.06.01	17.05.10		
Rating	BUY	BUY	BUY	BUY		
Target price	33,000	36,000	36,000	34,700		
Diff. (avr. %)	3.39	(22.68)	(13.56)	(12.24)		
Diff. (max./min., %)	22.58	(15.28)	(8.70)	(8.94)		
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max./min., %)						
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max./min., %)						

Investment rating breakdown and framework (May 4, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	90.3%	9.7%	0.0%

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.