COMPANY UPDATE

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Tech Team

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Kakao (035720)

Platform division strong, content division hazy

- We believe Kakao's 4Q sales expanded 7.7% y-y on robust growth in platform sales. Operating profit likely jumped 147% y-y (3.8% short of consensus) thanks to a low base and improving results at subsidiaries.
- In 2026, earnings momentum should be driven by robust ad-sales growth and the sale of loss-making subsidiaries. The success of its AI agent strategy should take some time to pay off.

WHAT'S THE STORY?

4Q preview: We believe Kakao's 4Q25 sales expanded 7.7% y-y, losing some momentum, as platform sales likely grew 14.3% y-y on strong growth in ads, Kakao Mobility, and Kakao Pay, although content sales edged up 0.1% y-y due to a drop in game sales. KakaoTalk Biz ad sales likely increased 15% y-y, fueled by the expansion of message ads and the addition of new short-form ads. Commerce sales likely rose 5.7% y-y, boosted by gifting during the Chuseok holiday season. Kakao Pay sales likely jumped 24% y-y thanks to increased insurance sales and higher trading volumes in overseas stocks. Kakao mobility sales likely climbed 23% y-y, maintaining robust growth. Meantime, game sales likely fell 20% y-y due to the absence of new releases and declining sales of Odin, and sales at the story unit also likely declined 1.5% y-y on Piccoma's marketing (of handing out free coins as a promotion). Kakao's labor cost and marketing expenses likely edged up y-y due to subsidiaries' year-end bonus payment and Piccoma-related marketing. Nevertheless, its operating profit likely leapt 147% y-y to KRW186.2b (3.8% short of consensus) thanks to: 1) a low base from having recognized one-off write-off of a KRW31.5b cost relating to Tmon and Wemakeprice (Kakao Pay) in 4Q24; and 2) reduced operating expenses from the sale of loss-making subsidiaries.

(Continued on the next page)

SUMMARY FINANCIAL DATA

	2024	2025E	2026E	2027E
Revenue (KRWb)	7,872	8,086	8,598	9,353
Operating profit (KRWb)	460	686	824	957
Net profit (adj) (KRWb)	-162	435	481	569
EPS (adj) (KRW)	-202	1,207	1,621	1,769
EPS (adj) growth (% y-y)	nm	nm	34.4	9.1
EBITDA margin (%)	16.5	19.1	20.3	21.3
ROE (%)	0.6	3.7	5.4	5.7
P/E (adj) (x)	n/a	49.8	35.9	32.9
P/B (x)	1.7	2.5	2.3	2.2
EV/EBITDA (x)	13.4	18.4	15.8	14.1
Dividend yield (%)	0.2	0.2	0.2	0.2

Source: Company data, Samsung Securities estimates

AT A GLANCE

BUY

Target price	KRW72,000	23.7%
Current price	KRW58,200	
Market cap	KRW25.8t/USD17.8b	
Shares (float)	442,495,220 (75.3%)	
52-week high/low	KRW70,400/KRW35,750	
Avg daily trading value (60-day)	KRW193.6b/ USD133.4m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Kakao (%)	-4.3	-3.8	56.5
Vs Kospi (%pts)	-13.5	-34.3	-14.0

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	72,000	78,000	-7.7%
2025E EPS	1,207	1,193	1.2%
2026E EPS	1,621	1,605	1.0%

SAMSUNG vs THE STREET

No of estimates	19
Target price	80,895
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

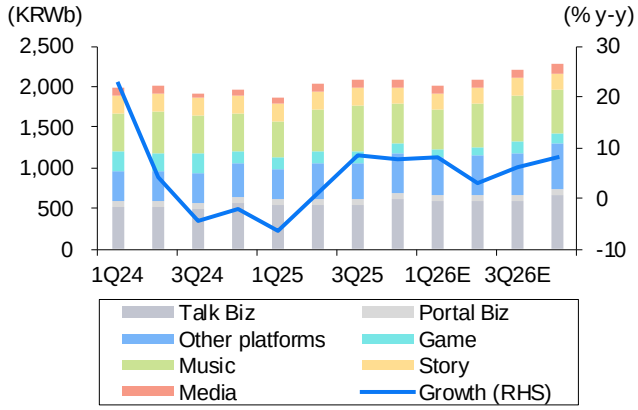
Message ads drive ad sales growth: Kakao's ad sales have been driven by message ads. Since the launch of brand message ads (based on prior consent) in May, ad sales growth has picked up steam, expanding over 10% from 3Q25. The share of message ads within KakaoTalk Biz ad sales has also risen to 45% (vs 40% early 2025). Starting this year, the company has marked up the price of brand message ads from KRW25 to up to KRW27, a move to further boost sales. While short-form ad sales are still small in scale, they are likely to gradually expand thanks to content expansion (following creator recruitment) and algorithm improvements.

Disposal of subsidiaries to lift 2026 earnings: Kakao enhanced profitability in 2025 by selling its stakes in low-performing subsidiaries and sub-subsidiaries. In November, the company signed an agreement to exclude Kakao Healthcare from its consolidated results through a stake sale and rights offering. It plans to continue negotiating the sale of other loss-making subsidiaries in 2026. Candidates reportedly up for sale include Daum portal service (spun off as AXZ), Kakao Games, and the media business unit. The sale of loss-making subsidiaries should be the key driver of Kakao's 2026 earnings momentum—a factor to boost operating profit by more than 20% y-y.

AI strategy to take some to bring results: Kakao is positioning AI agents as a main growth driver for 2026. Following the launch of ChatGPT for Kakao last year, the firm plans to release Kanana in KakaoTalk (on-device AI assistant) in 1Q26. Vertical agent Kakao Tools started from services likely gifting and booking, and should expand into Kakao Mobility and Kakao Pay. The focus for 2026 is on improving usability through integration with external platforms. For Kakao's AI agents to succeed, they should need to offer competitive vertical services and a differentiated user experience compared to apps. At present, the AI-related impact on increasing the total time spent is still minimal, and it should take some time for tangible results to emerge.

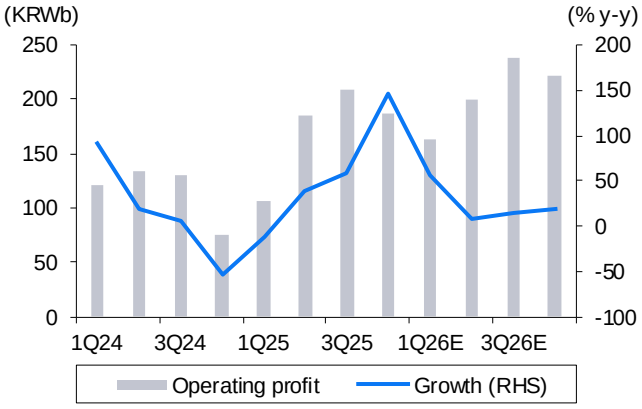
AI hype already priced in: Reflecting the expected decline after the sale of subsidiaries, we cut our target price on Kakao by 7.7% from KRW78,000 to KRW72,000 (based on 3.8x 12-month forward P/S, a 25% discount to the average for global platform companies). However, we maintain BUY rating, given the potential for strong ad sales growth and solid earnings momentum from the sale of subsidiaries. The stock is trading at around 37x 12-month forward P/E, indicating that much of the AI agent expectations is already priced in the market. The stock should show some volatility, depending on the initial performance of Kanana in KakaoTalk (set to debut in March).

Quarterly sales



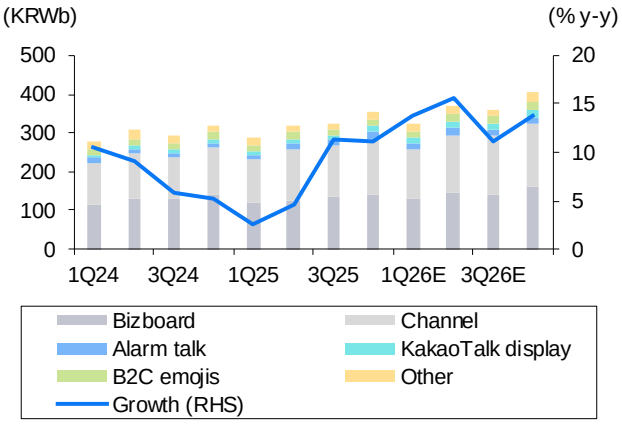
Source: Company data, Samsung Securities estimates

Quarterly operating profit



Source: Company data, Samsung Securities estimates

Talk Biz: Ad sales

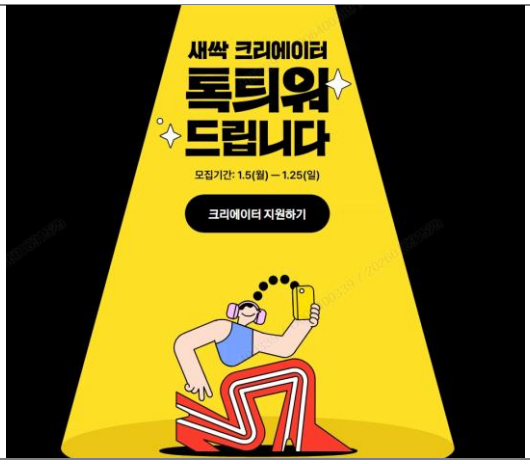


Source: Company data, Samsung Securities estimates

Kakao brand message ad

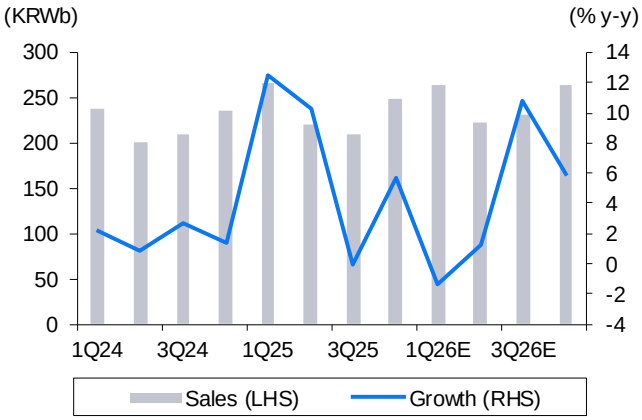
Source: Company data

Open recruitment for short form creator



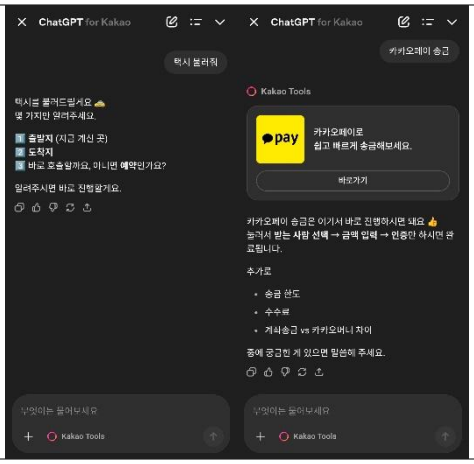
Source: Company data

Talk Biz: Commerce sales



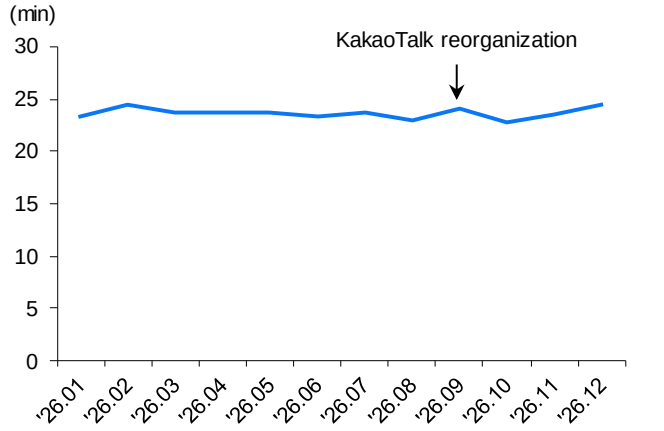
Source: Company data, Samsung Securities estimates

Kakao Tools: Mobility and pay integration



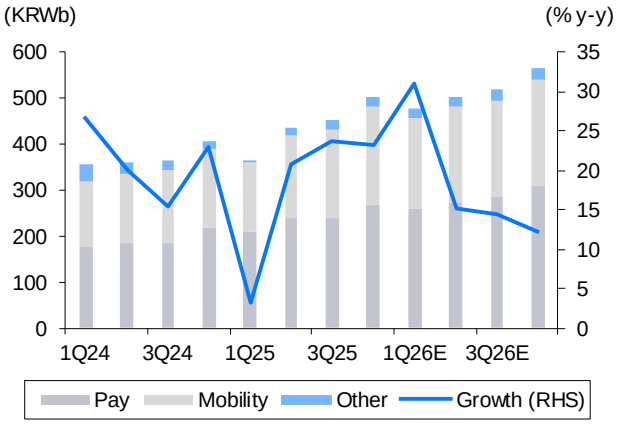
Source: Company data

KakaoTalk: Average time app used per day



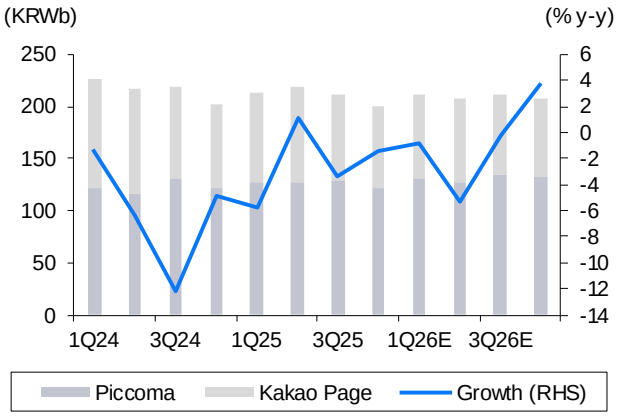
Source: SensorTower

Sales at 'other platforms'



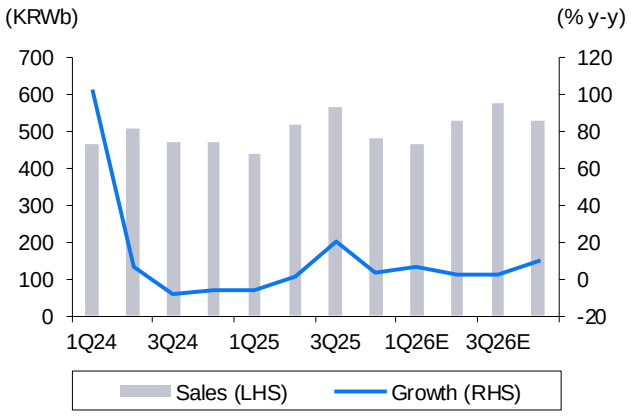
Source: Company data, Samsung Securities estimates

Story: Sales



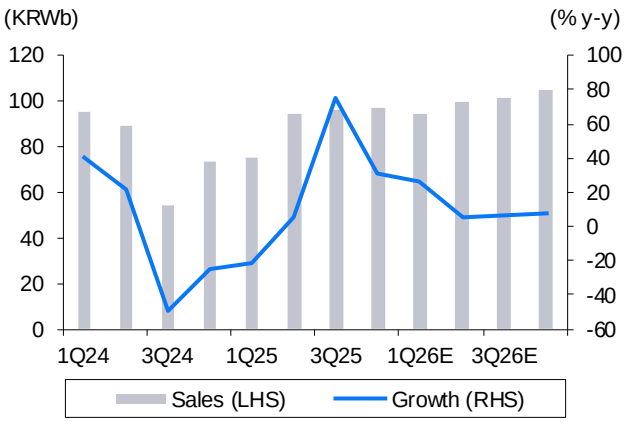
Source: Company data, Samsung Securities estimates

Music: Sales



Source: Company data, Samsung Securities estimates

Media: Sales



Source: Company data, Samsung Securities estimates

Kakao valuation

(KRWb)	
12-month forward sales	8,425
Target P/S (x) *	3.8
Fair market value	31,938
Outstanding shares ('000)	442,510
Fair share price (KRW)	72,175
Target price (KRW)	**72,000**
Current price (KRW)	58,200
Upside (%)	23.7%

Note: *25% discount to the 2025 and 2026 1:3 weighted average of P/S multiples at which peers are trading;
As of Jan 9 close
Source: Samsung Securities estimates

Global peers: P/E and P/S valuations

(x)	P/E			P/S		
	2025E	2026E	Average*	2025E	2026E	Average*
Alphabet	28.8	26.6	27.1	11.1	9.7	10.1
Meta Platforms	22.6	19.6	20.3	8.4	7.1	7.4
Tencent	20.0	17.7	18.3	6.8	6.1	6.3
Alibaba	16.1	26.7	24.0	2.5	2.4	2.4
LY Corporation	20.0	16.5	17.4	1.5	1.4	1.4
Baidu	19.2	18.1	18.4	2.8	2.6	2.7
Average	**21.1**	**20.9**	**20.9**	**5.5**	**4.9**	**5.1**

Note: *1:3 weighted average for 2025 and 2026
Based on Jan 9 closing prices
Source: Bloomberg

Quarterly results and forecasts

(KRWb)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E
Sales	**1,988**	**2,005**	**1,921**	**1,957**	**1,864**	**2,028**	**2,087**	**2,108**	**2,013**	**2,092**	**2,212**	**2,281**
Platform	955	955	943	1,047	993	1,055	1,060	1,197	1,135	1,162	1,183	1,312
TalkBiz	516	508	501	557	553	542	534	618	587	590	599	677
Portal Biz	85	88	76	83	74	78	73	77	69	72	67	72
Other platforms	354	360	366	407	366	435	453	502	479	501	518	563
Content	1,034	1,050	978	910	871	973	1,027	911	878	930	1,028	969
Game	243	233	234	163	145	143	154	130	104	96	139	125
Music	468	511	471	470	438	518	565	484	469	528	577	533
Story	227	216	219	203	213	219	211	200	211	207	211	207
Media	95	90	55	74	75	94	96	97	95	100	102	105
Operating expenses	**1,868**	**1,871**	**1,791**	**1,882**	**1,758**	**1,842**	**1,879**	**1,921**	**1,849**	**1,892**	**1,974**	**2,059**
Labor costs	479	481	459	498	479	489	477	510	484	486	488	528
Cost of sales	820	797	748	654	701	717	748	727	715	730	781	793
Marketing costs	89	108	105	103	87	88	102	110	95	100	111	119
Outsourcing/infra	202	196	194	288	206	233	261	274	252	262	276	285
D&A expenses	198	207	211	246	206	222	208	216	222	228	234	241
Other	80	82	74	93	80	93	83	85	82	87	84	92
Operating profit	**120**	**134**	**131**	**75**	**105**	**186**	**208**	**186**	**163**	**200**	**237**	**222**
Pre-tax profit	141	165	136	-444	193	195	255	-173	208	254	283	-91
Net profit	68	87	79	-395	200	172	193	-130	156	191	198	-64
Net profit (controlling)	74	101	106	-226	172	161	125	-78	179	219	228	-38
Adjusted EPS (KRW)	251	321	397	-121	382	455	302	68	441	513	553	114
Margins (%)												
Operating profit	6.0	6.7	6.8	3.9	5.7	9.2	10.0	8.8	8.1	9.6	10.7	9.8
Pre-tax profit	7.1	8.2	7.1	(22.7)	10.3	9.6	12.2	(8.2)	10.3	12.2	12.8	(4.0)
Net profit	3.4	4.3	4.1	(20.2)	10.7	8.5	9.2	(6.2)	7.8	9.1	9.0	(2.8)
Net profit (controlling)	3.7	5.1	5.5	(11.5)	9.2	7.9	6.0	(3.7)	8.9	10.5	10.3	(1.7)

Source: Company data, Samsung Securities estimates

Revisions to full-year forecasts

(KRWb)	2025E			2026E			2027E		
	Old	New	Diff (%)	Old	New	Diff (%)	Old	New	Diff (%)
Sales	**8,137**	**8,086**	**(0.6)**	**8,820**	**8,598**	**(2.5)**	**9,620**	**9,353**	**(2.8)**
Platform	4,285	4,305	0.5	4,804	4,792	(0.2)	5,365	5,268	(1.8)
TalkBiz	2,246	2,248	0.1	2,508	2,452	(2.2)	2,813	2,686	(4.5)
Portal Biz	302	302	0.0	273	279	2.2	257	262	2.2
Other platforms	1,737	1,755	1.0	2,022	2,060	1.9	2,295	2,320	1.1
Content	3,852	3,781	(1.8)	4,017	3,806	(5.2)	4,256	4,085	(4.0)
Game	582	572	(1.7)	504	464	(8.0)	598	549	(8.3)
Music	2,052	2,005	(2.3)	2,256	2,105	(6.7)	2,401	2,258	(6.0)
Story	855	843	(1.4)	857	836	(2.5)	831	840	1.1
Media	363	362	(0.3)	400	401	0.2	425	438	3.1
Operating expenses	**7,459**	**7,401**	**(0.8)**	**8,011**	**7,775**	**(3.0)**	**8,673**	**8,396**	**(3.2)**
Labor costs	1,960	1,955	(0.2)	2,005	1,986	(0.9)	2,070	2,051	(0.9)
Cost of sales	2,924	2,892	(1.1)	3,132	3,019	(3.6)	3,407	3,293	(3.4)
Marketing costs	387	386	(0.1)	446	424	(5.0)	488	475	(2.8)
Outsourcing/infra	981	974	(0.7)	1,103	1,075	(2.5)	1,212	1,178	(2.8)
D&A expenses	853	852	(0.1)	928	924	(0.4)	1,043	1,036	(0.6)
Other	355	341	(4.0)	397	346	(12.9)	452	362	(19.9)
Operating profit	**678**	**686**	**1.2**	**809**	**824**	**1.8**	**948**	**957**	**1.0**
Pre-tax profit	456	469	2.8	635	654	3.1	791	813	2.7
Net profit	425	435	2.3	469	481	2.7	554	569	2.7
Net profit (controlling)	374	380	1.5	581	589	1.3	639	649	1.6
Adjusted EPS (KRW)	1,193	1,206	1.2	1,605	1,621	1.0	1,747	1,769	1.3
Margins (%)									
Operating profit	8.3	8.5		9.2	9.6		9.8	10.2	
Pre-tax profit	5.6	5.8		7.2	7.6		8.2	8.7	
Net profit	5.2	5.4		5.3	5.6		5.8	6.1	
Net profit (controlling)	4.6	4.7		6.6	6.8		6.6	6.9	

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**7,557**	**7,872**	**8,086**	**8,598**	**9,353**
Cost of goods sold	0	0	0	0	0
Gross profit	**7,557**	**7,872**	**8,086**	**8,598**	**9,353**
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	7,096	7,411	7,401	7,775	8,396
Operating profit	**461**	**460**	**686**	**824**	**957**
Operating margin (%)	6.1	5.8	8.5	9.6	10.2
Non-operating gains (losses)	**-2,109**	**-463**	**-216**	**-169**	**-144**
Financial profit	317	406	345	383	386
Financial costs	308	381	426	383	423
Equity-method gains (losses)	4	54	95	81	98
Other	-2,122	-541	-230	-250	-206
Pre-tax profit	**-1,648**	**-3**	**469**	**654**	**813**
Taxes	168	159	34	173	244
Effective tax rate (%)	-10.2	-5,650.7	7.3	26.5	30.0
Profit from continuing operations	-1,817	-162	435	481	569
Profit from discontinued operations	0	0	0	0	0
Net profit	**-1,817**	**-162**	**435**	**481**	**569**
Net margin (%)	-24.0	-2.1	5.4	5.6	6.1
Net profit (controlling interests)	-1,013	55	380	589	649
Net profit (non-controlling interests)	-804	-217	55	-107	-80
EBITDA	1,222	1,296	1,541	1,748	1,993
EBITDA margin (%)	16.2	16.5	19.1	20.3	21.3
EPS (parent-based) (KRW)	-2,276	124	859	1,330	1,467
EPS (consolidated) (KRW)	-4,084	-365	983	1,087	1,286
Adjusted EPS (KRW)*	-237	-202	1,207	1,621	1,769

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**9,988**	**10,959**	**11,892**	**12,060**	**12,020**
Cash & equivalents	5,389	6,145	6,023	5,658	5,020
Accounts receivable	622	538	556	601	651
Inventories	139	65	82	89	96
Other current assets	3,838	4,211	5,231	5,711	6,254
Fixed assets	**15,192**	**14,814**	**14,953**	**15,913**	**17,149**
Investment assets	5,365	5,726	5,310	6,177	7,309
Tangible assets	1,337	1,286	1,528	1,593	1,667
Intangible assets	5,769	5,137	5,493	5,521	5,550
Other long-term assets	2,721	2,665	2,622	2,622	2,622
Total assets	**25,180**	**25,773**	**26,845**	**27,973**	**29,168**
Current liabilities	**7,564**	**8,633**	**8,695**	**9,315**	**9,925**
Accounts payable	242	227	0	0	0
Short-term debt	1,053	1,458	988	988	988
Other current liabilities	6,270	6,947	7,707	8,326	8,936
Long-term liabilities	**3,757**	**3,197**	**3,627**	**3,698**	**3,768**
Bonds & long-term debt	846	328	886	886	886
Other long-term liabilities	2,912	2,870	2,740	2,812	2,882
Total liabilities	**11,321**	**11,830**	**12,322**	**13,013**	**13,693**
Owners of parent equity	**9,764**	**10,141**	**10,537**	**11,081**	**11,677**
Capital stock	45	44	44	44	44
Capital surplus	8,840	8,911	8,759	8,759	8,759
Retained earnings	1,922	1,943	2,571	3,115	3,710
Other	-1,043	-758	-837	-837	-837
Non-controlling interests' equity	**4,095**	**3,802**	**3,986**	**3,879**	**3,799**
Total equity	**13,859**	**13,943**	**14,523**	**14,960**	**15,476**
Net debt	-2,720	-3,416	-2,241	-1,982	-1,485

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**1,341**	**1,250**	**1,067**	**1,823**	**1,970**
Net profit	-1,817	-162	435	481	569
Non-cash profit and expenses	3,001	1,462	905	1,073	1,248
Depreciation	489	576	589	647	739
Amortization	271	260	266	278	298
Other	2,240	627	49	149	211
Changes in A/L from operating activities	248	-4	-180	264	224
Cash flow from investments	**-1,780**	**10**	**-439**	**-1,255**	**-1,412**
Change in tangible assets	-561	-348	-475	-711	-813
Change in financial assets	-589	206	-451	-288	-322
Other	-630	152	487	-255	-277
Cash flow from financing	**1,020**	**-521**	**-572**	**-112**	**-130**
Change in debt	331	-122	1,560	165	163
Change in equity	724	71	-152	0	0
Dividends	-55	-43	-39	-45	-54
Other	19	-427	-1,941	-233	-240
Change in cash	553	756	-146	-365	-639
Cash at beginning of year	4,836	5,389	6,170	6,023	5,658
Cash at end of year	5,389	6,145	6,023	5,658	5,020
Gross cash flow	**1,184**	**1,300**	**1,340**	**1,554**	**1,817**
Free cash flow	**766**	**871**	**579**	**1,111**	**1,158**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	11.1	4.2	2.7	6.3	8.8
Operating profit	-19.1	-0.1	49.0	20.1	16.2
Net profit	nm	nm	nm	10.6	18.3
Adjusted EPS**	nm	nm	nm	34.4	9.1
Per-share data (KRW)					
EPS (parent-based)	-2,276	124	859	1,330	1,467
EPS (consolidated)	-4,084	-365	983	1,087	1,286
Adjusted EPS**	-237	-202	1,207	1,621	1,769
BVPS	22,281	23,100	23,946	25,182	26,535
DPS (common)	61	68	101	122	122
Valuations (x)					
P/E***	n/a	n/a	49.8	35.9	32.9
P/B***	2.4	1.7	2.5	2.3	2.2
EV/EBITDA	20.9	13.4	18.4	15.8	14.1
Ratios (%)					
ROE	-10.2	0.6	3.7	5.4	5.7
ROA	-7.5	-0.6	1.7	1.8	2.0
ROIC	8.2	539.8	12.7	10.8	12.1
Payout ratio	-2.6	54.0	11.7	9.1	8.3
Dividend yield (common)	0.1	0.2	0.2	0.2	0.2
Net debt to equity	-19.6	-24.5	-15.4	-13.2	-9.6
Interest coverage (x)	2.8	2.3	3.0	3.5	4.0

Note: *Excluding one-off items
**Fully diluted, excluding one-off items
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

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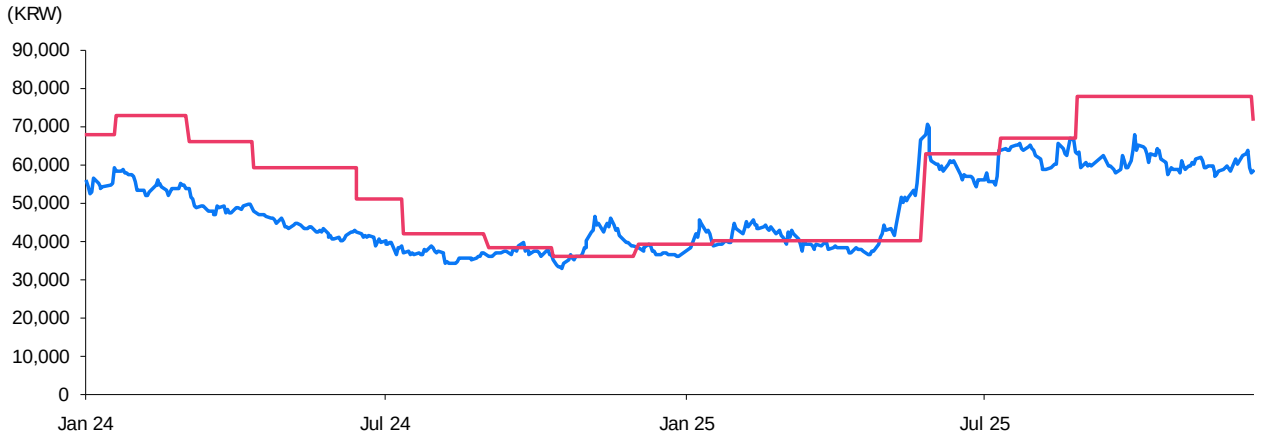
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/1/10	2/16	4/1	5/10	7/12	8/9	9/30	11/8	12/30	2025/2/14	6/23	8/8
Recommendation	BUY	BUY	BUY	BUY	BUY	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD
Target price (KRW)	68000	73000	66000	59000	51000	42000	38000	36000	39000	40000	63000	67000
Gap* (average)	-17.04	-25.07	-26.32	-26.46	-22.09	-13.99	-2.04	9.84	-0.25	5.22	-6.72	-6.11
(max or min)**	-10.15	-19.59	-22.42	-20.34	-17.84	-7.86	3.68	29.44	16.15	66.50	-14.13	0.00

Date	9/24	2026/1/9
Recommendation	BUY	BUY
Target price (KRW)	78000	72000
Gap* (average)	-22.40	
(max or min)**	-13.21	

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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Industry

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UNDERWEIGHT	Expected to underperform market by 5% or more within 12 months

* Note: Effective Jul 27, 2023, BUY, HOLD, and SELL criteria are based on expectations of share-price moves of 15% or more within 12 months

Percentage of ratings in 12 months prior to 2025.12.31

BUY(85.8%)·HOLD(14.2%)·SELL(0%)

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