COMPANY UPDATE

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Global Equity

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KT&G (033780)

2025 shareholder return ratio reaches 112%; new return cycle begins

- KT&G reported in-line 4Q results showing sales of KRW1.71t and an operating profit of KRW248.8b (for an operating margin of 14.5%), driven by overseas cigarette ASP hikes, strong cigarette sales in the Middle East, and a recovery in next generation product (NGP) sales.
- The company set its 2025 DPS at KRW6,000, implying total dividends of KRW627.3b for 2025 (for a payout ratio of 57%). Including share buybacks and cancellations, the company's total payout ratio for 2025 reached 112%.
- KT&G also announced plans to cancel KRW533.9b treasury shares next week, marking the start of the 2026 shareholder return cycle. KT&G should remain a top shareholder return company in Korea. We raise our target price by 12%.

WHAT'S THE STORY?

4Q results solid; 2026 outlook robust: KT&G reported 4Q sales of KRW1.71t (up 10% y-y) and an operating profit of KRW248.8b (up 17% y-y). One-off items included: 1) early retirement program costs of KRW13b in the tobacco business; and 2) KRW150b in sales from the Seocho SPC real-estate project.

- **Tobacco sales up 4.5% y-y:** Cigarette sales grew 1.6% y-y, with domestic sales down 10.6% y-y due to front-loading in 3Q25 (vs down 3% y-y in 2H25), but overseas sales up 14.6% y-y, driven by ASP hikes, despite flat volume growth. NGP sales increased 18% y-y, boosted by new platform launches in Russia. In 2026, we forecast overseas cigarette ASP hikes to continue and new NGP platform launches & pouch product expansion to gain

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW190,000	17.4%
Current price	**KRW161,800**	
Market cap	KRW19.1t/USD13.0b	
Shares (float)	114,676,645 (75.3%)	
52-week high/low	KRW161,800/KRW95,000	
Avg daily trading value (60-day)	KRW44.0b/ USD30.0m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
KT&G (%)	14.1	17.9	45.8
Vs Kospi (%pts)	-1.5	-27.0	-29.2

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	190,000	170,000	11.8%
2025E EPS	8,906	8,875	0.3%
2026E EPS	11,111	10,897	2.0%

SAMSUNG vs THE STREET

No of estimates	19
Target price	176,842
Recommendation	4.0

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

SUMMARY 4Q25 RESULTS

(KRWb)	4Q25	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	1,713.7	10.1	-6.2	6.4	2.9
Operating profit	248.8	17.1	-46.5	-7.1	0.9
Pre-tax profit	389.9	-12.5	-28.8	15.0	26.1
Net profit	274.2	-15.7	-34.5	5.4	23.5
Margins (%)					
Operating profit	14.5				
Pre-tax profit	22.8				
Net profit	16.0				

Source: Company data, Fnguide, Samsung Securities estimates

VALUATION SUMMARY

	2024	2025E	2026E
Valuation (x)			
P/E	11.9	16.0	14.6
P/B	1.3	1.6	1.8
EV/EBITDA	9.4	10.3	10.8
Div yield (%)	5.0	4.2	3.8
EPS growth (% y-y)	35.7	-0.8	24.8
ROE (%)	12.7	11.7	14.0
Per-share data (KRW)			
EPS	8,975	8,906	11,111
BVPS	85,662	88,499	90,686
DPS	5,400	6,000	6,200

- **Functional food sales down 24.9% y-y:** Domestic sales fell 7.8% y-y, while overseas sales dropped 48.9% y-y, the latter due to (profitability-focused) strategic downsizing in China and the US. Due to the focus on profitability, operating margin improved slightly, up 2.3% y-y to 2.9%. In 2026, the focus should remain on profitability-centered business efficiency improvement and growth in strategic channels (domestic duty-free and online).
- **Real estate sales up 135% y-y:** Sales surged y-y led by lump-sum recognition of the Seocho project. Development and leasing sales remained flat q-q, and profitability improved (eg, an operating margin of 10.2%) thanks to decline in follow-up costs in the Suwon project.

Best-in-class shareholder returns—2026 cycle takes off: The company confirmed its 2025 DPS at KRW6,000 (in line with our forecast), resulting in a total payout ratio of 112%. This exceeded the company's 2025 target. KT&G also said a plan to further increase its shareholder return target for 2026. As the first step, the company will cancel KRW533.9b in treasury shares next week (Feb 12), signaling the start of the 2026 shareholder return cycle. Reflecting strong shareholder returns and global best practices, we raise our target price by 12% to KRW190,000 (based on 18x 12-month forward P/E).

KT&G: Results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26E	2Q26E	3Q26E	4Q26E	2023	2024	2025	2026E	2027E
Sales	**1,491.1**	**1,547.9**	**1,826.9**	**1,713.7**	**1,689.9**	**1,670.0**	**1,948.9**	**1,597.2**	**5,862.6**	**5,908.8**	**6,579.6**	**6,906.0**	**7,338.2**
Tobacco	988.0	1,090.6	1,232.3	1,056.4	1,186.5	1,240.8	1,388.9	1,157.1	3,612.3	3,905.6	4,367.3	4,973.3	5,528.0
Cigarette	822.7	877.3	970.8	798.9	932.8	968.4	1,082.4	886.5	2,810.7	3,099.5	3,469.7	3,870.1	4,272.2
Domestic	373.6	408.3	446.6	363.6	359.0	390.3	426.0	349.4	1,677.9	1,649.2	1,592.1	1,524.8	1,465.2
Overseas	449.1	469.0	524.2	435.3	573.8	578.1	656.4	537.1	1,132.8	1,450.3	1,877.6	2,345.3	2,807.0
NGP	159.0	196.1	279.1	255.9	252.5	270.2	304.7	268.9	779.4	783.9	890.1	1,096.3	1,249.2
Domestic	138.5	140.1	168.3	140.4	141.4	147.3	176.9	147.6	519.3	559.0	587.3	613.1	638.3
Overseas	20.5	56.0	110.8	115.5	111.1	122.9	127.8	121.3	260.1	224.9	302.8	483.2	610.9
Intermediate	6.3	17.2	-17.6	1.6	1.2	2.2	1.8	1.6	22.2	22.2	7.5	6.8	6.5
Functional food	314.4	220.6	359.8	242.2	275.0	192.9	328.2	208.5	1,393.5	1,301.6	1,137.0	1,004.7	965.6
Real estate	100.4	143.7	146.1	322.4	137.7	138.9	139.7	135.5	550.1	361.3	712.6	551.8	453.9
Other	88.3	93.0	88.7	92.7	90.6	97.4	92.1	96.1	306.7	340.3	362.7	376.2	390.7
Operating profit	**285.6**	**349.9**	**465.3**	**248.8**	**350.6**	**403.0**	**471.2**	**263.9**	**1,167.3**	**1,188.8**	**1,349.5**	**1,488.8**	**1,623.2**
Tobacco	252.9	321.8	371.8	210.3	314.4	377.3	431.5	240.8	977.1	1,084.1	1,156.8	1,364.0	1,514.7
Functional food	18.2	6.2	71.5	7.0	16.5	5.8	21.3	6.5	117.1	98.2	102.9	50.1	50.2
Real estate	10.4	17.7	20.7	32.9	16.5	16.8	15.4	13.6	69.1	-4.9	81.7	62.2	45.4
Other	4.1	4.2	1.3	-1.4	3.2	3.1	3.0	3.2	4.0	11.4	8.1	12.5	12.9
Net profit	**255.6**	**143.3**	**419.3**	**263.7**	**303.7**	**333.2**	**384.5**	**257.1**	**902.7**	**1,165.7**	**1,081.8**	**1,278.4**	**1,376.6**
Margins (%)													
Operating profit	**19.2**	**22.6**	**25.5**	**14.5**	**20.7**	**24.1**	**24.2**	**16.5**	**19.9**	**20.1**	**20.5**	**21.6**	**22.1**
Tobacco	25.6	29.5	30.2	19.9	26.5	30.4	31.1	20.8	27.0	27.8	26.5	27.4	27.4
Functional food	5.8	2.8	19.9	2.9	6.0	3.0	6.5	3.1	8.4	7.5	9.1	5.0	5.2
Real estate	10.4	12.3	14.2	10.2	12.0	12.1	11.0	10.0	12.6	-1.4	11.5	11.3	10.0
Other	4.6	4.5	1.5	-1.5	3.5	3.2	3.2	3.3	1.3	3.4	2.2	3.3	3.3
Net profit	**17.1**	**9.3**	**22.9**	**15.4**	**18.0**	**20.0**	**19.7**	**16.1**	**15.4**	**19.7**	**16.4**	**18.5**	**18.8**
Growth (% y-y)													
Sales	**15.4**	**8.7**	**11.6**	**10.1**	**13.3**	**7.9**	**6.7**	**-6.8**	**0.2**	**0.8**	**11.4**	**5.0**	**6.3**
Tobacco	15.3	10.2	17.6	4.5	20.1	13.8	12.7	9.5	1.1	8.1	11.8	13.9	11.2
Cigarette	21.9	11.3	14.1	1.6	13.4	10.4	11.5	11.0	5.3	10.3	11.9	11.5	10.4
Domestic	-2.4	-4.8	3.6	-10.6	-3.9	-4.4	-4.6	-3.9	1.1	-1.7	-3.5	-4.2	-3.9
Overseas	53.9	30.6	24.9	14.6	27.8	23.3	25.2	23.4	12.1	28.0	29.5	24.9	19.7
NGP	-9.8	-0.8	44.5	18.1	58.8	37.8	9.2	5.1	-11.0	0.6	13.5	23.2	14.0
Domestic	6.5	2.0	7.5	4.0	2.1	5.1	5.1	5.1	11.5	7.6	5.1	4.4	4.1
Overseas	-55.6	-7.3	202.7	41.4	441.8	119.5	15.4	5.1	-36.6	-13.5	34.6	59.6	26.4
Intermediate	12.5	309.5	nm	-81.0	-81.0	-87.0	nm	3.0	-20.7	-	-66.2	-8.8	-5.0
Functional food	1.9	-16.8	-11.3	-24.9	-12.5	-12.5	-8.8	-13.9	0.3	-6.6	-12.6	-11.6	-3.9
Real estate	122.1	78.5	48.3	135.2	37.2	-3.3	-4.4	-58.0	-9.4	-34.3	97.2	-22.6	-17.7
Other	7.6	5.4	5.3	8.1	2.6	4.7	3.8	3.6	9.0	10.9	6.6	3.7	3.9
Operating profit	**20.7**	**8.7**	**11.4**	**17.1**	**22.8**	**15.2**	**1.3**	**6.1**	**-7.9**	**1.8**	**13.5**	**10.3**	**9.0**
Tobacco	22.4	1.7	11.0	-7.0	24.3	17.2	16.1	14.5	-3.2	11.0	6.7	17.9	11.0
Functional food	-20.9	nm	3.9	-5.4	-9.3	-6.7	-70.2	-7.7	33.4	-16.1	4.8	-51.3	0.2
Real estate	300.0	510.3	63.0	nm	58.9	-5.0	-25.8	-58.8	-61.7	nm	nm	-23.8	-27.1
Net profit	**-10.7**	**-54.2**	**73.8**	**-19.0**	**18.8**	**132.5**	**-8.3**	**-2.5**	**-11.1**	**29.1**	**-7.2**	**18.2**	**7.7**

Source: Company data, Samsung Securities estimates

KT&G: Target-price calculation

(KRW)	Calculation	
12-month-forward EPS	(A=BxD+Cx(1-D))	10,273
2026E	(B)	10,198
2027E	(C)	10,981
2026 weighting* (%)	(D)	90.4%
Target P/E (x)**	(E)	18.3
Target price	(F=AxE)	190,000
Last price*	(G)	161,800
Upside	(F/G-1)	17.4%

Note: *As of Feb 5, 2026;
**15% discount to global top tier competitor(Philip Morris)
Source: Bloomberg, FnGuide, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**5,863**	**5,909**	**6,580**	**6,906**	**7,338**
Cost of goods sold	3,054	3,007	3,437	3,284	3,455
Gross profit	**2,808**	**2,902**	**3,143**	**3,622**	**3,883**
Gross margin (%)	47.9	49.1	47.8	52.4	52.9
SG&A expenses	1,641	1,713	1,793	2,133	2,260
Operating profit	**1,167**	**1,189**	**1,350**	**1,489**	**1,623**
Operating margin (%)	19.9	20.1	20.5	21.6	22.1
Non-operating gains (losses)	**74**	**370**	**111**	**181**	**185**
Financial profit	139	165	39	161	161
Financial costs	68	92	89	99	92
Equity-method gains (losses)	10	19	38	22	22
Other	-7	277	123	97	95
Pre-tax profit	**1,241**	**1,559**	**1,461**	**1,670**	**1,808**
Taxes	319	394	365	391	432
Effective tax rate (%)	25.7	25.3	25.0	23.4	23.9
Profit from continuing operations	930	1,172	1,095	1,279	1,377
Profit from discontinued operations	-7	-7	0	0	0
Net profit	**922**	**1,165**	**1,095**	**1,279**	**1,377**
Net margin (%)	15.7	19.7	16.6	18.5	18.8
Net profit (controlling interests)	903	1,166	1,082	1,278	1,377
Net profit (non-controlling interests)	20	-1	13	0	0
EBITDA	1,408	1,439	1,625	1,766	1,898
EBITDA margin (%)	24.0	24.4	24.7	25.6	25.9
EPS (parent-based) (KRW)	6,615	8,975	8,906	11,111	12,004
EPS (consolidated) (KRW)	6,759	8,969	9,015	11,115	12,005
Adjusted EPS (KRW)*	6,615	8,975	8,906	11,111	12,004

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**6,418**	**7,176**	**7,023**	**7,130**	**7,414**
Cash & equivalents	1,032	1,136	913	862	850
Accounts receivable	1,329	1,363	1,442	1,514	1,608
Inventories	2,764	3,101	3,284	3,140	3,304
Other current assets	1,294	1,576	1,384	1,613	1,652
Fixed assets	**6,354**	**6,749**	**7,152**	**6,825**	**6,864**
Investment assets	2,701	2,852	742	752	747
Tangible assets	2,096	2,664	2,823	2,721	2,750
Intangible assets	175	180	171	176	174
Other long-term assets	1,382	1,053	3,415	3,176	3,192
Total assets	**12,772**	**13,925**	**14,175**	**13,955**	**14,277**
Current liabilities	**2,672**	**3,143**	**3,193**	**3,185**	**3,186**
Accounts payable	261	352	405	396	398
Short-term debt	62	288	182	235	209
Other current liabilities	2,350	2,503	2,605	2,554	2,580
Long-term liabilities	**805**	**1,424**	**1,649**	**1,536**	**1,593**
Bonds & long-term debt	470	1,022	1,039	1,032	1,035
Other long-term liabilities	335	402	610	505	557
Total liabilities	**3,478**	**4,567**	**4,842**	**4,722**	**4,779**
Owners of parent equity	**9,174**	**9,239**	**9,185**	**9,113**	**9,378**
Capital stock	955	955	955	955	955
Capital surplus	534	535	535	535	535
Retained earnings	8,979	8,783	8,729	8,657	8,922
Other	-1,294	-1,034	-1,034	-1,034	-1,034
Non-controlling interests' equity	**121**	**119**	**148**	**120**	**120**
Total equity	**9,295**	**9,358**	**9,333**	**9,233**	**9,498**
Net debt	-770	-57	-210	-97	-114

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**1,266**	**822**	**574**	**1,305**	**1,367**
Net profit	922	1,165	1,094	1,279	1,377
Non-cash profit and expenses	539	349	576	502	478
Depreciation	211	219	244	247	243
Amortization	30	31	31	31	31
Other	297	99	301	224	204
Changes in A/L from operating activities	185	-365	-710	-124	-145
Cash flow from investments	**-848**	**-530**	**97**	**-627**	**-553**
Change in tangible assets	-466	-746	-636	-562	-595
Change in financial assets	-197	-341	0	0	0
Other	-186	558	733	-64	42
Cash flow from financing	**-776**	**-293**	**-941**	**-729**	**-826**
Change in debt	402	939	-96	48	-24
Change in equity	0	1	1	0	0
Dividends	-776	-587	-627	-777	-802
Other	-402	-647	-218	0	0
Change in cash	-369	104	-270	-51	-12
Cash at beginning of year	1,401	1,032	1,136	913	862
Cash at end of year	1,032	1,136	913	862	850
Gross cash flow	**1,461**	**1,514**	**1,671**	**1,780**	**1,855**
Free cash flow	**793**	**55**	**-63**	**732**	**761**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	0.2	0.8	11.4	5.0	6.3
Operating profit	-7.9	1.8	13.5	10.3	9.0
Net profit	-8.3	26.3	-6.0	16.8	7.7
Adjusted EPS**	-10.6	35.7	-0.8	24.8	8.0
Per-share data (KRW)					
EPS (parent-based)	6,615	8,975	8,906	11,111	12,004
EPS (consolidated)	6,759	8,969	9,015	11,115	12,005
Adjusted EPS**	6,615	8,975	8,906	11,111	12,004
BVPS	81,326	85,662	88,499	90,686	93,324
DPS (common)	5,200	5,400	6,000	6,200	6,400
Valuations (x)					
P/E***	13.1	11.9	16.0	14.6	13.5
P/B***	1.1	1.3	1.6	1.8	1.7
EV/EBITDA	7.8	9.4	10.3	10.8	10.1
Ratios (%)					
ROE	9.8	12.7	11.7	14.0	14.9
ROA	7.4	8.7	7.8	9.1	9.8
ROIC	19.2	17.1	14.6	14.1	15.1
Payout ratio	65.4	50.5	58.0	60.8	58.3
Dividend yield (common)	6.0	5.0	4.2	3.8	4.0
Net debt to equity	-8.3	-0.6	-2.2	-1.1	-1.2
Interest coverage (x)	25.5	28.2	18.4	16.8	20.4

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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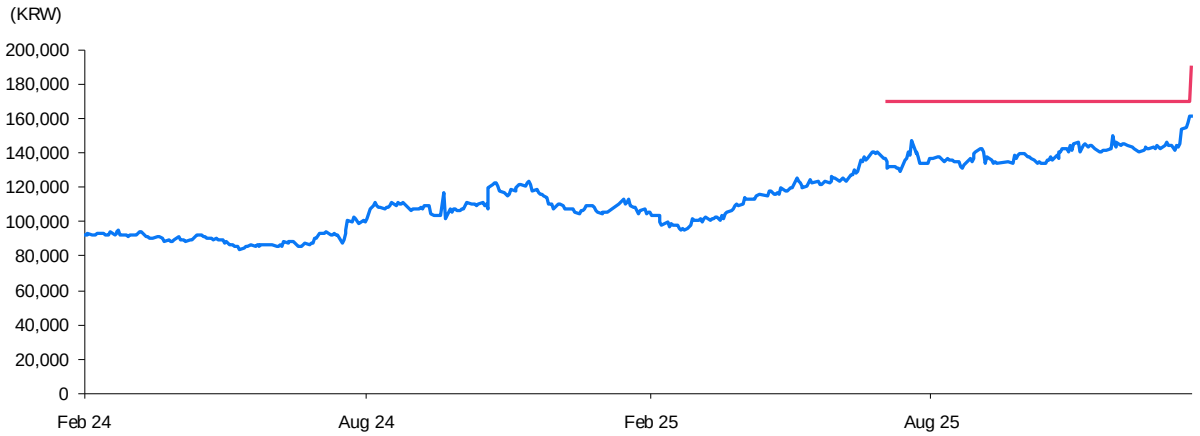
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2025/7/23	2026/2/6
Recommendation	BUY	BUY
Target price (KRW)	170000	190000
Gap* (average)	-17.65	
(max or min)**	-4.82	

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 15% or more within 12 months and is highly attractive within sector
HOLD	Expected to increase/decrease in value by less than 15% within 12 months
SELL	Expected to decrease in value by 15% 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

* 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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