SECTOR UPDATE

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Tech Team

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▶ AT A GLANCE

Kakao	(035720 KS, 46,650)	
Target price	KRW73,000	56.5%
BUY		
Kakao Games	(293490 KQ, 12,490)	
Target price	KRW13,000	4.1%
HOLD		

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Games/Internet (OVERWEIGHT)

Kakao Games to get new largest shareholder

- Kakao Games announced that its largest shareholder will change from Kakao to a subsidiary of LY Corporation. The latter will acquire a 40% stake in Kakao Games through a combination of private placement, convertible bonds, and the purchase of existing shares from Kakao.
- Kakao's consolidated earnings should improve following the removal of Kakao Games, which posted a net loss of KRW90.6b last year, from consolidated financial statements. Kakao Games will be able to enhance its financials with newly infused capital of KRW300b.
- Existing Kakao Games shareholders will experience a 20% equity dilution, making it essential to generate sufficient synergies to offset this impact.

WHAT'S THE STORY?

Kakao Games announces change of largest shareholder to LY Corp: In a regulatory filing on Mar 25, Kakao Games said that its largest shareholder will change from Kakao to LAAA Investment, a special purpose company backed by LY Corporation. LAAA Investment will acquire a 40% ownership of Kakao Games by purchasing part of the stake held by Kakao, participating in a KRW240b private placement, and buying KRW60b of convertible bonds (assuming full conversion). As a result of the partial stake sale and dilution from the private placement, Kakao's ownership will decline from 37.6% to 14%, positioning it as the second-largest shareholder.

Kakao's earnings to improve, upon Kakao Games' exclusion from consolidation: Kakao Games, which reported a net loss of KRW90.6b last year, will be removed from Kakao's consolidated financial statements in 3Q26, enhancing Kakao's consolidated earnings performance. Kakao plans to restructure—and realign equity stakes in—its loss-making content subsidiaries to sharpen focus on its core platform businesses. While Kakao is positioning AI agents as the new growth engine to replace its underperforming content businesses, tangible results have so far been limited. To achieve a meaningful stock price recovery, it will need not only improved consolidated earnings but also more compelling new growth drivers.

(Continued on the next page)

Infusion of KRW300b to provide Kakao Games with breathing room: Kakao Games plans to leverage the KRW300b in new capital from LY Corp to establish new growth drivers. Although the specific allocation of funds has not been disclosed, a portion will likely be deployed toward paying down the company's KRW1t debt, thereby improving its financials, with the remainder likely to serve as working capital. The upcoming launches of Odin Q and ArcheAge Chronicles in 2H should help the company turn around from losses. However, to achieve structural transformation, it must efficiently utilize the newly secured capital to build durable growth engines.

Can LY Corp do what Kakao has failed to do? Due to hegemony shifts in the mobile game market, Kakao Games has struggled to generate synergy with its parent company Kakao. LY Corp holds a 36% stake in Line Games through a subsidiary, but synergies between the two companies have been limited. Whether LY Corp can create meaningful synergies between Kakao Games and its own businesses—such as Japanese portals, e-commerce, and messaging—or revitalize Kakao Games' operations will require further observation.

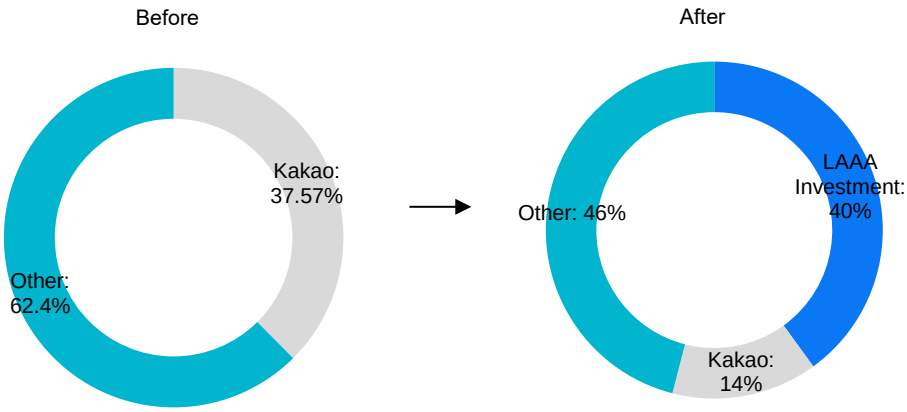
Both companies left with challenges: The private placement will dilute existing Kakao Games shareholders' ownership by approximately 20%. Kakao Games now faces the critical task of delivering performance that goes beyond merely offsetting this dilution—demonstrating synergies greater than those previously possible under Kakao's stewardship. For Kakao, while the move successfully removes a loss-making subsidiary from its consolidated financial statements, the cash proceeds from the sale of a controlling stake appear rather modest. The company needs to present investors with a compelling growth engine rooted in focused resource allocation.

LY (LAAA) acquires stake in Kakao Games

Category	Details	
Paid-in capital increase	Investment amount	KRW240b
	Number of shares	17,458,354 common shares (19.44% of total shares outstanding)
	Issue price per share	KRW13,747
Convertible bonds acquisition	Investment amount	KRW60b
	Number of shares	4,344,048 common shares (4.66% of total shares outstanding)
	Conversion price	KRW13,812
	Conversion period	May 29,2027 ~ May 22, 2029
Secondary offering	Partial acquisition of Kakao's stake in Kakao Games; purchase price: undisclosed; Kakao's ownership expected to decrease from 37.6% to 14%	
Total stake secured	Upon conversion, LAAA Investment to have a 40% stake and become the largest shareholder	

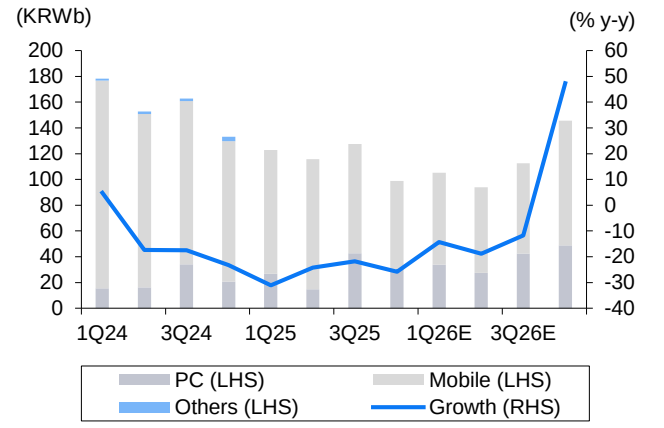
Source: Company data, Samsung Securities estimates

Change in Kakao Games' shareholding structure



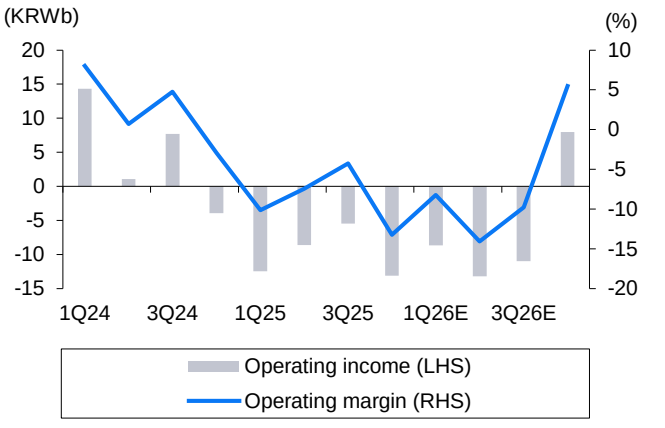
Note: Assumes full conversion of convertible bonds
Source: Kakao Games, DART

Quarterly sales



Source: Kakao Games

Quarterly operating income



Source: Kakao Games

Upcoming titles

Launch	Title	Genre	Platform	Region	In-house/publishing
1Q26	SM game station (tentative)	SM Idol IP-based casual	Mobile	Global	In-house (Metabora)
	The Cube, Save Us	Extraction action	PC	Global	In-house (XL Games)
2Q26	Dungeon Arise	Strategy adventure RPG	Mobile, PC	Global	Publishing (Tiny Fun Games)
3Q26	OdinQ	MMORPG	Mobile, PC	Korea	In-house (Lionheart)
	Project OQ	Dot graphic 2.5D MMORPG	Mobile, PC	Korea	Publishing (SuperCat)
4Q26	ArcheAge Chronicle	Online action RPG	PC, console	Global	In-house (XL Games)
	Project C	Otaku-subculture growth simulation	Mobile, PC	Korea, Japan	In-house (Lionheart)
	God Save Birmingham	Open-world zombie survival	PC, console	Global	In-house (Ocean Drive)
1Q27	Chrono Odyssey	Online action RPG	PC, console	Global	Publishing (Chrono Studio)
TBD	Project S	Looter shooter	PC, console	Global	In-house (Lionheart)
	The Swordmaster's Youngest Son IP-based game	Hunting action RPG	PC, console	Global	In-house (Ocean Drive)

Source: Company data, Samsung Securities

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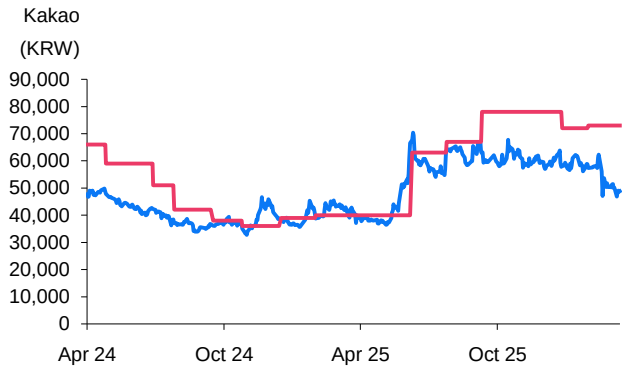
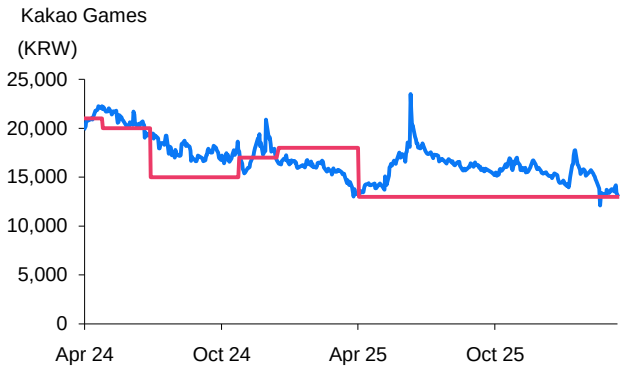
Target price changes in past two years





Rating changes over past two years (adjusted share prices)

Kakao												
Date	2024/2/16	4/1	5/10	7/12	8/9	9/30	11/8	12/30	2025/2/14	6/23	8/8	9/24
Recommendation	BUY	BUY	BUY	BUY	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	BUY
Target price (KRW)	73000	66000	59000	51000	42000	38000	36000	39000	40000	63000	67000	78000
Gap* (average)	-25.07	-26.32	-26.46	-22.09	-13.99	-2.04	9.84	-0.25	5.22	-6.72	-6.11	-22.40
(max or min)**	-19.59	-22.42	-20.34	-17.84	-7.86	3.68	29.44	16.15	66.50	-14.13	0.00	-13.21
Date	2026/1/9	2/13										
Recommendation	BUY	BUY										
Target price (KRW)	72000	73000										
Gap* (average)	-17.97											
(max or min)**	-13.61											

Kakao Games						
Date	2023/11/9	2024/5/9	7/12	11/7	12/30	2025/4/16
Recommendation	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD
Target price (KRW)	21000	20000	15000	17000	18000	13000
Gap* (average)	15.87	3.64	17.94	2.77	-12.52	
(max or min)**	-4.76	-4.85	9.47	-9.47	-4.17	

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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