COMPANY UPDATE

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Tech Team

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Kakao (035720)

Profitability rising, but growth drivers still needed

- Kakao's 1Q operating profit likely climbed 49% y-y (meeting consensus) on growing platform sales and cost control.
- We see divestiture of loss-making content subsidiaries positive for profitability. However, the limited impact of its AI agents means that the company needs to articulate a compelling new growth story to reignite investor confidence.

WHAT'S THE STORY?

1Q preview—platform sales growing: In the platform segment, KakaoTalk ad sales likely rose 17% y-y, fueled by the expansion of brand message ads. KakaoTalk commerce sales likely increased 6.4% y-y on Shopping Festival in March. We believe Kakao Mobility delivered solid sales growth of 23% y-y on diversification into quick delivery and parking lot services, and Kakao Pay enjoyed sales growth of 23% y-y on increased stock trading activity. Falling sales in games (-28% y-y due to absence of new titles) and story (-3.9% y-y resulting from stagnation in the webtoon market) were negated by growth in music and media, leading to 2.4% y-y decline in sales from the content segment. We estimate the company's 1Q sales grew 8.1% y-y but operating profit surge 49% y-y to KRW171.1b (meeting consensus) on disciplined labor cost management.

Divesting loss-making content subsidiaries—positive to profitability: The divestiture of Kakao Games and AXZ (operator of internet portal Daum) should remove the subsidiaries' operating losses from consolidated results this year. While this boosts overall the bottom line, Kakao still faces the challenge of identifying new growth drivers to replace those businesses.

(Continued on the next page)

SUMMARY FINANCIAL DATA

(KRWb)	2025	2026E	2027E	2028E
Revenue	8,099	8,447	8,886	9,580
Operating profit	732	962	1,249	1,394
Net profit (adj)	518	545	799	944
EPS (adj) (KRW)	1,527	1,625	2,262	2,538
EPS (adj) growth (% y-y)	nm	6.4	39.2	12.2
EBITDA margin (%)	19.4	21.3	24.2	24.8
ROE (%)	4.6	4.9	6.7	7.4
P/E (adj) (x)	39.4	30.1	21.6	19.3
P/B (x)	2.3	1.8	1.7	1.6
EV/EBITDA (x)	16.4	11.7	9.8	8.9
Dividend yield (%)	0.1	0.2	0.2	0.2

Source: Company data, Samsung Securities estimates

AT A GLANCE

BUY

Target price	KRW59,000	20.5%
Current price	**KRW48,950**	
Market cap	KRW21.7t/USD14.8b	
Shares (float)	441,580,272 (75.4%)	
52-week high/low	KRW70,400/KRW36,450	
Avg daily trading value (60-day)	KRW137.6b/ USD93.7m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Kakao (%)	-2.1	-21.4	25.8
Vs Kospi (%pts)	-11.4	-53.0	-51.0

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	59,000	73,000	-19.2%
2026E EPS	1,625	1,676	-3.0%
2027E EPS	2,262	1,898	19.2%

SAMSUNG vs THE STREET

No of estimates	18
Target price	76,111
Recommendation	4.0

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

AI initiatives remain in early stages: Although Kakao launched "ChatGPT for Kakao" and "Kanana in KakaoTalk", user engagement and traffic gains have been limited. Kanana uses conversation data to deliver personalized push alerts, but its usefulness is limited by privacy restrictions on message content and the current capabilities of on-device AI—neither yet delivering clear, tangible value to users. While AI agents are central to Kakao's long-term vision, turning them into a revenue stream remains a distant.

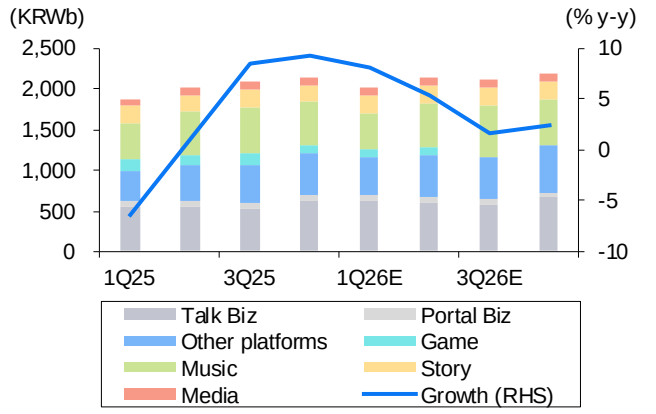
Clearer growth narrative—essential: Reflecting a drop in industry peers' valuation and the revenue losses from the sale of loss-making subsidiaries, we reduce our target price on Kakao by 19.2% from KRW73,000 to KRW59,000 (based on a 3.1x 2026 P/ S, a 25% discount to the average for global platform peers to account for differences in sales growth). While we see the asset sale positive for profitability, new growth drivers should be imperative for a meaningful valuation recovery.

1Q preview

(KRWb)	1Q26E			Diff (%)		1Q25	4Q25	Chg	
	Result	Samsung	Consensus	Samsung	Consensus			(% y-y)	(% q-q)
Sales	**2,011.7**	**2,024.8**	**2,014.7**	**(0.6)**	**(0.2)**	**1,860.6**	**2,133.2**	**8.1**	**(5.7)**
Platform	1,161.6	1,154.0		0.7		989.9	1,222.6	17.3	(5.0)
Talk Biz	618.9	583.0		6.2		553.3	627.1	11.9	(1.3)
Portal Biz	68.9	68.9		0.0		74.1	71.7	(7.0)	(3.8)
Other platforms	473.8	502.1		(5.6)		365.6	523.9	29.6	(9.6)
Content	850.1	870.8		(2.4)		870.7	910.6	(2.4)	(6.6)
Game	105.2	105.2		0.0		145.2	97.9	(27.5)	7.5
Music	446.6	468.5		(4.7)		437.9	525.1	2.0	(14.9)
Story	204.4	203.2		0.6		212.6	191.8	(3.9)	6.5
Media	93.9	93.9		0.0		75.1	95.8	25.0	(2.0)
Operating expenses	**1,840.6**	**1,849.8**		**(0.5)**		**1,745.7**	**1,929.8**	**5.4**	**(4.6)**
Labor costs	471.9	476.9		(1.0)		472.1	497.4	(0.0)	(5.1)
Cost of sales	727.8	736.9		(1.2)		697.5	768.0	4.3	(5.2)
Marketing costs	94.5	91.1		3.8		86.5	116.3	9.3	(18.7)
Outsourcing/infra	251.5	253.1		(0.6)		204.9	250.0	22.7	0.6
D&A expenses	205.9	209.8		(1.9)		204.9	204.3	0.5	0.8
Other	89.0	82.0		8.5		79.8	93.7	11.5	(5.0)
Operating profit	**171.1**	**175.0**	**173.7**	**(2.2)**	**(1.5)**	**114.9**	**203.4**	**48.8**	**(15.9)**
Pre-tax profit	199.7	215.4	224.5	(7.3)	(11.0)	183.4	(29.8)	8.9	nm
Net profit	149.8	161.5	180.2	(7.3)	(16.9)	200.3	(47.1)	(25.2)	nm
Net profit (controlling)	157.3	185.8	154.9	(15.4)	1.5	171.9	33.5	(8.5)	369.9
Margins (%)									
Operating profit	8.5	8.6	8.6			6.2	9.5		
Pre-tax profit	9.9	10.6	11.1			9.9	(1.4)		
Net profit	7.4	8.0	8.9			10.8	(2.2)		
Net profit (controlling)	7.8	9.2	7.7			9.2	1.6		

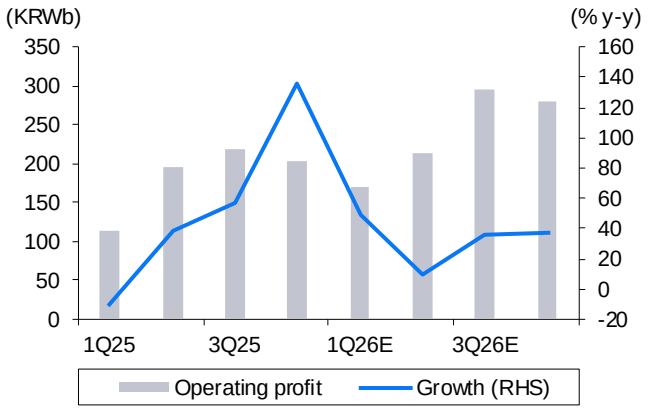
Source: Company data, FnGuide, Samsung Securities estimates

Quarterly sales, by division



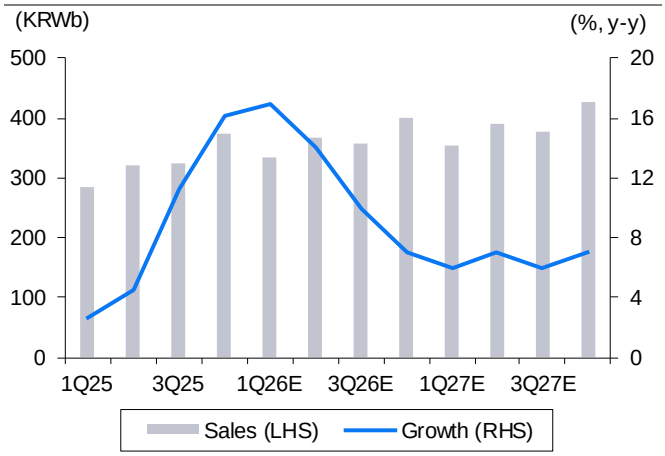
Source: Company data, Samsung Securities estimates

Quarterly operating profit



Source: Company data, Samsung Securities estimates

Talk Biz: Ad sales

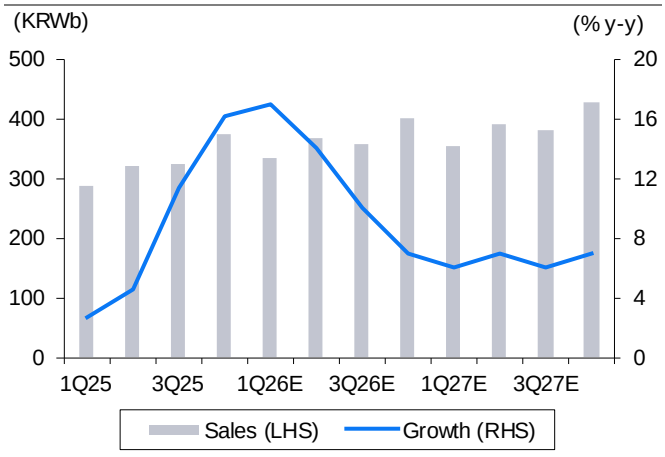


Source: Company data, Samsung Securities estimates

3Q25 Kakao talk brand message

Source: Company data

Talk Biz: Commerce sales

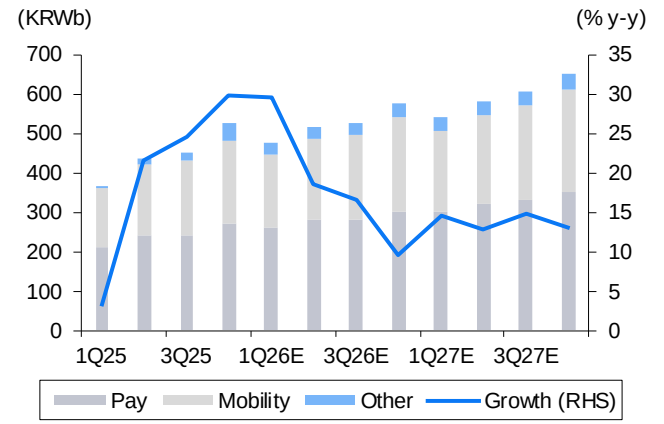


Source: Company data, Samsung Securities estimates

Kakao "shopping festa"

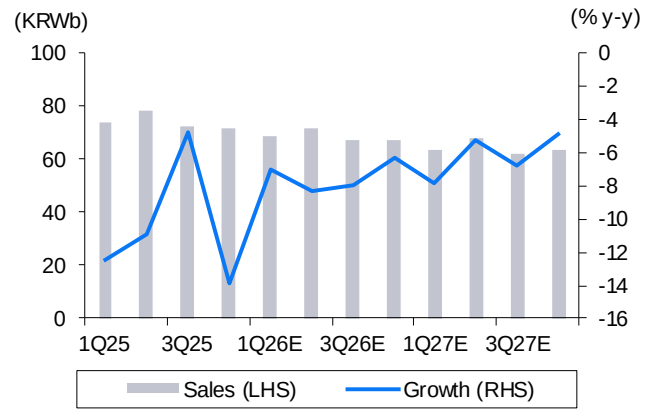
Source: Company data

Other platforms: Sales



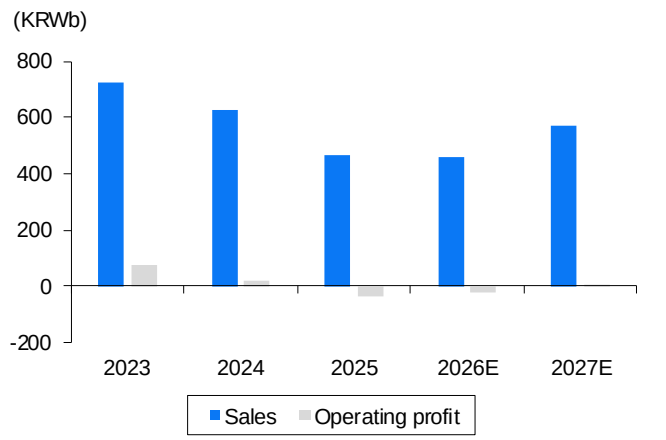
Source: Company data, Samsung Securities estimates

Portal Biz: Sales



Source: Company data, Samsung Securities estimates

Kakao Games: Sales



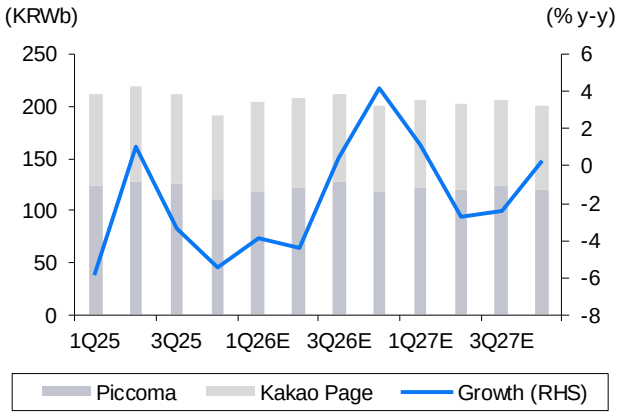
Source: Company data, Samsung Securities estimates

Kakao Games: Divestment overview

Category	Details
Participation in capital increase	Acquisition cost: KRW240b Shares acquired: 17,458,354 common shares (19.44% of shares outstanding) Issue price: KRW13,747
Acquisition of convertible bonds	Acquisition cost: KRW60b Convertible shares: 4,344,048 common shares (4.66% of shares outstanding) Conversion price: KRW13,812 Conversion period: May 29, 2027-May 22, 2029
Acquisition of secondary shares	Partial acquisition of Kakao Games stake Kakao ownership to decline from 37.6% to 14%
Total ownership	LAAA investment will secure 40% stake upon conversion, becoming the largest shareholder

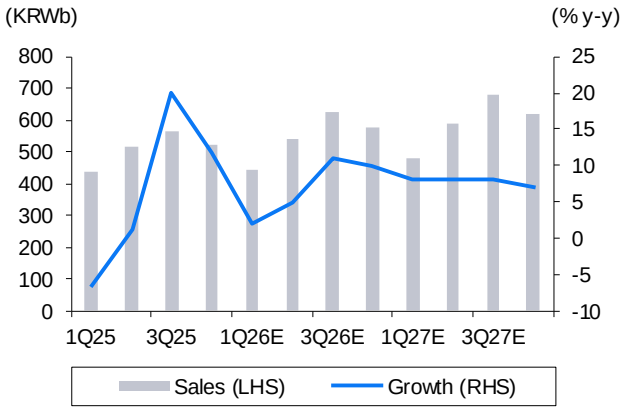
Source: Kakao games, Samsung Securities

Story: Sales



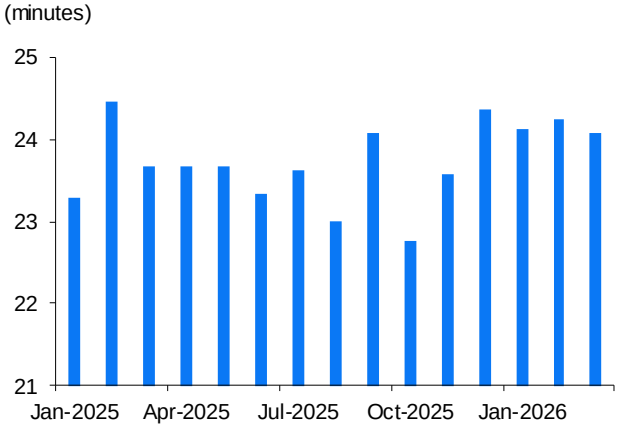
Source: Company data, Samsung Securities estimates

Music: Sales



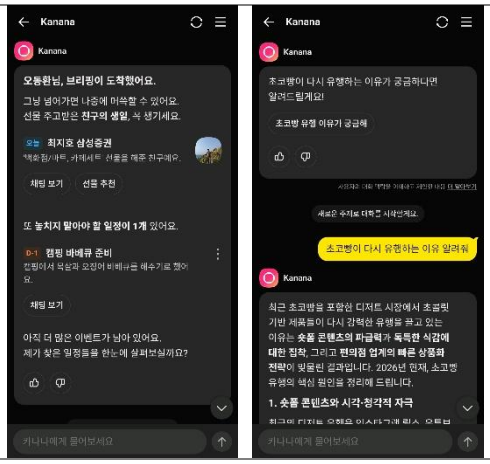
Source: Company data, Samsung Securities estimates

KakaoTalk: Average time app used per day



Source: SensorTower

Kanana in Kakao



Source: Company data

Kakao: Valuation

(KRWb)	
12-month forward sales	8,447
Target P/S* (x)	3.1
Fair market value	26,070
Outstanding shares ('000)	442,510
Fair share price (KRW)	58,914
Target price (KRW)	**59,000**
Current price (KRW)	48,100
Upside (%)	22.7%

Note: *25% discount to peer group's 2026 P/S; Based on Apre 14 closing price
Source: Samsung Securities estimates

Peers: P/S and P/E valuations

(x)	P/E		P/S	
	2025	2026E	2025	2026E
Alphabet	27.5	24.5	10.6	8.9
Meta Platforms	18.9	17.5	7.3	5.8
Tencent	15.3	14.0	5.2	4.7
Alibaba	12.8	23.9	2.0	2.0
LY Corporation	19.1	14.8	1.4	1.4
Baidu	14.7	13.6	2.0	2.0
Average	**18.1**	**18.1**	**4.8**	**4.1**
Discount rate (%)	**-25.0**	**-25.0**	**-25.0**	**-25.0**
Target multiple	**13.5**	**13.5**	**3.6**	**3.1**

Note: As of Apr 14 close
Source: Bloomberg

Quarterly results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26E	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
Sales	**1,861**	**2,024**	**2,081**	**2,133**	**2,012**	**2,135**	**2,114**	**2,187**	**2,055**	**2,193**	**2,286**	**2,351**
Platform	990	1,051	1,055	1,223	1,162	1,189	1,174	1,306	1,264	1,294	1,291	1,420
Talk Biz	553	542	534	627	619	602	579	665	659	644	623	708
Portal Biz	74	78	73	72	69	72	67	67	63	68	62	64
Other platforms	366	435	453	524	474	515	528	574	542	582	606	648
Content	871	973	1,027	911	850	945	940	881	791	899	995	931
Game	145	143	154	98	105	94	0	0	0	0	0	0
Music	438	518	565	525	447	543	627	578	482	587	678	618
Story	213	219	211	192	204	209	212	200	207	203	207	200
Media	75	94	96	96	94	99	101	104	101	109	111	113
Operating expenses	**1,746**	**1,829**	**1,863**	**1,930**	**1,841**	**1,920**	**1,817**	**1,907**	**1,796**	**1,891**	**1,942**	**2,007**
Labor costs	472	482	471	497	472	474	422	457	435	437	440	477
Cost of sales	697	713	742	768	728	776	748	805	728	767	798	811
Marketing costs	87	87	101	116	95	96	85	92	82	92	98	103
Outsourcing/infra	205	232	259	250	251	267	264	241	240	272	284	282
D&A expenses	205	221	208	204	206	211	208	215	219	224	228	233
Other	80	93	82	94	89	96	89	98	91	99	94	101
Operating profit	**115**	**195**	**218**	**203**	**171**	**215**	**297**	**280**	**259**	**302**	**344**	**344**
Pre-tax profit	183	186	244	-30	200	250	272	5	262	312	353	137
Net profit	200	172	193	-47	150	187	204	4	197	234	265	103
Net profit (controlling)	172	161	125	33	157	197	214	2	203	241	273	105
Adjusted EPS (KRW)	382	455	302	-152	409	488	530	199	505	584	662	511
Margins (%)												
Operating profit	6.2	9.6	10.5	9.5	8.5	10.0	14.0	12.8	12.6	13.8	15.1	14.6
Pre-tax profit	9.9	9.2	11.7	(1.4)	9.9	11.7	12.9	0.2	12.8	14.2	15.5	5.8
Net profit	10.8	8.5	9.3	(2.2)	7.4	8.8	9.7	0.2	9.6	10.7	11.6	4.4
Net profit (controlling)	9.2	8.0	6.0	1.6	7.8	9.2	10.1	0.1	9.9	11.0	11.9	4.5

Source: Company data, Samsung Securities estimates

Revisions to full-year forecasts

(KRWb)	2026E			2027E			2028E		
	Old	New	Diff (%)	Old	New	Diff (%)	Old	New	Diff (%)
Sales	**8,767**	**8,447**	**(3.6)**	**9,583**	**8,886**	**(7.3)**		**9,580**	**n/a**
Platform	4,907	4,831	(1.6)	5,411	5,270	(2.6)		5,739	n/a
Talk Biz	2,476	2,466	(0.4)	2,724	2,634	(3.3)		2,826	n/a
Portal Biz	275	275	0.0	258	258	0.0		242	n/a
Other platforms	2,157	2,090	(3.1)	2,430	2,378	(2.1)		2,671	n/a
Content	3,860	3,616	(6.3)	4,172	3,616	(13.3)		3,840	n/a
Game	457	199	(56.5)	565	0	(100.0)		0	n/a
Music	2,199	2,195	(0.2)	2,369	2,365	(0.2)		2,548	n/a
Story	807	826	2.3	804	818	1.7		819	n/a
Media	396	396	0.0	434	434	0.0		473	n/a
Operating expenses	**7,892**	**7,485**	**(5.2)**	**8,538**	**7,636**	**(10.6)**		**8,186**	**n/a**
Labor costs	1,958	1,825	(6.8)	2,103	1,789	(14.9)		1,867	n/a
Cost of sales	3,228	3,057	(5.3)	3,480	3,103	(10.8)		3,305	n/a
Marketing costs	422	367	(13.1)	466	376	(19.3)		405	n/a
Outsourcing/infra	1,060	1,023	(3.5)	1,163	1,078	(7.3)		1,233	n/a
D&A expenses	873	840	(3.7)	956	905	(5.4)		979	n/a
Other	351	373	6.2	370	385	4.1		397	n/a
Operating profit	**875**	**962**	**10.0**	**1,045**	**1,249**	**19.6**		**1,394**	**n/a**
Pre-tax profit	742	727	(2.1)	914	1,065	16.5		1,259	n/a
Net profit	545	545	0.1	640	799	24.9		944	n/a
Net profit (controlling)	652	571	(12.5)	727	822	13.0		962	n/a
Adjusted EPS (KRW)	1,672	1,625	(2.8)	1,898	2,262	19.2		2,538	n/a
Margins (%)									
Operating profit	10.0	11.4		10.9	14.1			14.5	
Pre-tax profit	8.5	8.6		9.5	12.0			13.1	
Net profit	6.2	6.5		6.7	9.0			9.9	
Net profit (controlling)	7.4	6.8		7.6	9.2			10.0	

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**7,864**	**8,099**	**8,447**	**8,886**	**9,580**
Cost of goods sold	0	0	0	0	0
Gross profit	**7,864**	**8,099**	**8,447**	**8,886**	**9,580**
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	7,369	7,367	7,485	7,636	8,186
Operating profit	**495**	**732**	**962**	**1,249**	**1,394**
Operating margin (%)	6.3	9.0	11.4	14.1	14.5
Non-operating gains (losses)	**-497**	**-119**	**-235**	**-185**	**-134**
Financial profit	405	393	386	430	439
Financial costs	368	398	365	396	424
Equity-method gains (losses)	56	90	-60	-45	-17
Other	-590	-204	-195	-174	-132
Pre-tax profit	**-1**	**613**	**727**	**1,065**	**1,259**
Taxes	160	95	182	266	315
Effective tax rate (%)	-11,588.1	15.5	25.0	25.0	25.0
Profit from continuing operations	-111	527	545	799	944
Profit from discontinued operations	-51	-9	0	0	0
Net profit	**-162**	**518**	**545**	**799**	**944**
Net margin (%)	-2.1	6.4	6.5	9.0	9.9
Net profit (controlling interests)	55	491	571	822	962
Net profit (non-controlling interests)	-217	26	-26	-23	-17
EBITDA	1,331	1,572	1,802	2,154	2,373
EBITDA margin (%)	16.9	19.4	21.3	24.2	24.8
EPS (parent-based) (KRW)	124	1,110	1,291	1,860	2,178
EPS (consolidated) (KRW)	-365	1,170	1,233	1,809	2,139
Adjusted EPS (KRW)*	-193	1,527	1,625	2,262	2,538

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**10,722**	**12,374**	**12,291**	**12,596**	**12,738**
Cash & equivalents	6,170	6,374	5,787	5,487	4,945
Accounts receivable	549	569	616	667	722
Inventories	81	77	85	92	99
Other current assets	3,922	5,354	5,802	6,349	6,972
Fixed assets	**15,051**	**15,409**	**16,282**	**17,422**	**18,889**
Investment assets	5,750	6,066	6,858	7,907	9,276
Tangible assets	1,363	1,557	1,617	1,684	1,757
Intangible assets	5,171	5,228	5,251	5,274	5,300
Other long-term assets	2,768	2,559	2,556	2,556	2,556
Total assets	**25,773**	**27,784**	**28,573**	**30,018**	**31,627**
Current liabilities	**8,545**	**8,780**	**9,019**	**9,613**	**10,223**
Accounts payable	228	228	235	253	271
Short-term debt	1,458	938	938	938	938
Other current liabilities	6,859	7,613	7,845	8,422	9,013
Long-term liabilities	**3,285**	**3,779**	**3,817**	**3,913**	**4,011**
Bonds & long-term debt	328	991	991	991	991
Other long-term liabilities	2,957	2,788	2,827	2,922	3,020
Total liabilities	**11,830**	**12,559**	**12,836**	**13,526**	**14,233**
Owners of parent equity	**10,141**	**11,276**	**11,814**	**12,592**	**13,510**
Capital stock	44	44	44	44	44
Capital surplus	8,911	8,803	8,803	8,803	8,803
Retained earnings	1,943	2,685	3,222	4,000	4,919
Other	-758	-256	-256	-256	-256
Non-controlling interests' equity	**3,802**	**3,949**	**3,923**	**3,900**	**3,883**
Total equity	**13,943**	**15,225**	**15,737**	**16,492**	**17,393**
Net debt	-3,384	-4,792	-4,505	-4,526	-4,348

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**1,250**	**1,405**	**1,623**	**2,247**	**2,411**
Net profit	-162	518	545	799	944
Non-cash profit and expenses	1,462	1,014	1,005	1,131	1,217
Depreciation	576	583	607	671	726
Amortization	260	258	233	233	253
Other	627	174	164	227	238
Changes in A/L from operating activities	-4	-106	74	406	388
Cash flow from investments	**10**	**-478**	**-1,192**	**-1,315**	**-1,440**
Change in tangible assets	-348	-465	-668	-738	-799
Change in financial assets	164	-843	-322	-375	-420
Other	194	830	-203	-202	-221
Cash flow from financing	**-521**	**-708**	**-168**	**-161**	**-162**
Change in debt	-36	-404	12	30	31
Change in equity	71	-108	0	0	0
Dividends	-43	-39	-33	-43	-43
Other	-513	-158	-147	-148	-149
Change in cash	781	204	-587	-300	-542
Cash at beginning of year	5,389	6,170	6,374	5,787	5,487
Cash at end of year	6,170	6,374	5,787	5,487	4,945
Gross cash flow	**1,300**	**1,532**	**1,550**	**1,930**	**2,161**
Free cash flow	**871**	**926**	**955**	**1,508**	**1,612**

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	4.1	3.0	4.3	5.2	7.8
Operating profit	7.5	47.8	31.4	29.9	11.5
Net profit	nm	nm	5.2	46.5	18.3
Adjusted EPS**	nm	nm	6.4	39.2	12.2
Per-share data (KRW)					
EPS (parent-based)	124	1,110	1,291	1,860	2,178
EPS (consolidated)	-365	1,170	1,233	1,809	2,139
Adjusted EPS**	-193	1,527	1,625	2,262	2,538
BVPS	23,100	25,625	26,903	28,675	30,766
DPS (common)	68	75	99	99	99
Valuations (x)					
P/E***	n/a	39.4	30.1	21.6	19.3
P/B***	1.7	2.3	1.8	1.7	1.6
EV/EBITDA	13.0	16.4	11.7	9.8	8.9
Ratios (%)					
ROE	0.6	4.6	4.9	6.7	7.4
ROA	-0.6	1.9	1.9	2.7	3.1
ROIC	-22.5	16.0	20.9	27.9	33.1
Payout ratio	54.0	6.7	7.6	5.3	4.5
Dividend yield (common)	0.2	0.1	0.2	0.2	0.2
Net debt to equity	-24.3	-31.5	-28.6	-27.4	-25.0
Interest coverage (x)	2.4	4.1	6.5	8.4	9.3

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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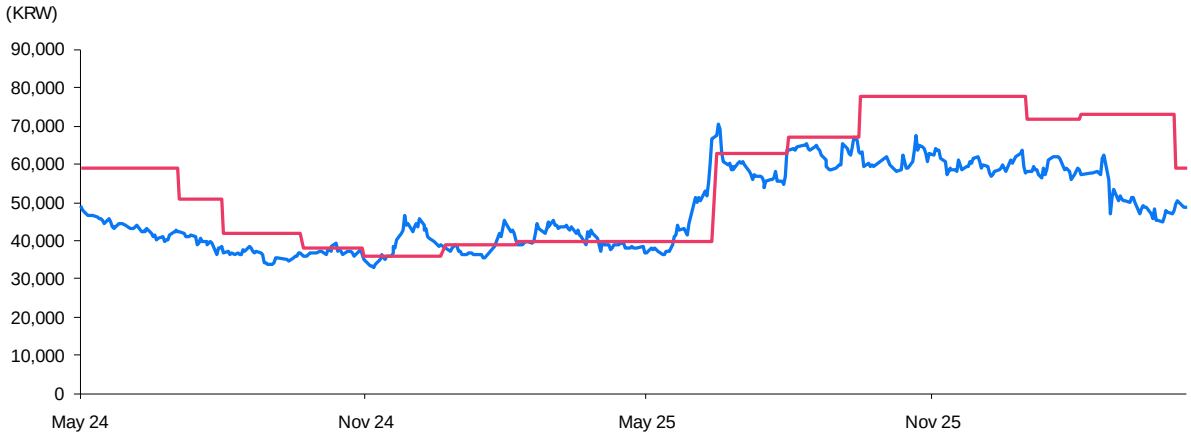
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

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

Date	2/13	4/15
Recommendation	BUY	BUY
Target price (KRW)	73000	59000
Gap* (average)	-30.41	
(max or min)**	-14.66	

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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