COMPANY UPDATE

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SK Networks (001740)

Core business improving; investment upside

- We forecast that SK Networks will report a 1Q consolidated operating profit of KRW32.6b, beating consensus by 35%.
- The strength should be driven by: 1) improved profitability at SK Intellix via expanded sales of existing products; and: 2) higher terminal sales volume and increased average revenue per user at the information communication business.
- As the company has completed the cancellation of 9.3% of its 12.3% treasury shares, we raise our 2026 EPS estimates by 7.5%. Meanwhile, the value of its stake in Upstage should gradually gain market attention.

WHAT'S THE STORY?

To report stronger-than-expected 1Q operating profit: We forecast SK Networks to report 1Q consolidated sales of KRW1.8t (up 9.7% q-q) and an operating profit of KRW32.6b—the latter 35% above the FnGuide consensus. We estimate that: 1) SK Intellix posted improved profitability q-q through stronger sales of existing products (although its new product, Namu X, has yet to gain momentum); 2) the information communication business experienced simultaneous growth in sales volume and average revenue per user, driven by new product launches; and 3) Walkerhill Hotels & Resorts put in stronger performance, supported by rising inbound traffic and higher ADR. Particularly noteworthy should be SK Intellix's rapid recovery from its weak 4Q25 results.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW6,400	12.7%
Current price	**KRW5,680**	
Market cap	KRW1.3t/USD0.9b	
Shares (float)	200,593,889 (42.9%)	
52-week high/low	KRW5,970/KRW3,925	
Avg daily trading value (60-day)	KRW8.3b/ USD5.6m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
SK Networks (%)	8.8	22.9	33.6
Vs Kospi (%pts)	-6.7	-25.2	-47.9

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	6,400	5,700	12.3%
2026E EPS	289	267	8.2%
2027E EPS	349	306	14.1%

SAMSUNG vs THE STREET

No of estimates	5
Target price	7,040
Recommendation	4.0

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

SUMMARY FINANCIAL DATA

(KRWb)	2025	2026E	2027E	2028E
Revenue	6,745	6,895	7,033	7,211
Operating profit	86	128	139	150
Net profit (adj)	50	60	70	80
EPS (adj) (KRW)	225	289	349	400
EPS (adj) growth (% y-y)	5.3	28.3	20.8	14.6
EBITDA margin (%)	3.7	3.8	3.9	3.9
ROE (%)	2.6	2.9	2.9	3.4
P/E (adj) (x)	20.1	18.7	15.5	13.5
P/B (x)	0.4	0.6	0.5	0.5
EV/EBITDA (x)	8.1	7.6	7.2	6.7
Dividend yield (%)	5.5	4.6	3.7	3.7

Source: Company data, Samsung Securities estimates

Maintaining BUY: On Mar 26, the company announced the cancellation of 9.3% of its 12.3% treasury shares, an event leading to a 7.5% upward revision in our 2026 EPS estimate. Also, reflecting the hike in peer valuation, we raise our target price by 12% to KRW6,400 and maintain BUY. As for Upstage (a generative AI startup, in which SK Networks began investing in 2024), SK Networks has invested a total of KRW122b and acquired a 12.9% stake through the exercise of a call option and participation in its Series C round (valuing Upstage at KRW1.6t). Should Upstage's valuation continue to expand, SK Networks' equity value could see further upside. However, alongside management's communication on how it intends to unlock the value of this investment, market attention should remain focused on the intensity of management's efforts to realize its strategic goal of becoming an AI-focused holding company.

SK Networks: Results and forecasts (consolidated)

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26E	2Q26E	3Q26E	4Q26E	2025	2026E	2027E
Sales	**1,636.7**	**1,516.3**	**1,972.6**	**1,619.5**	**1,775.8**	**1,622.3**	**1,859.9**	**1,636.8**	**6,745.1**	**6,894.8**	**7,033.1**
Information communication	1,071.5	980.8	1,440.8	1,104.3	1,269.2	1,111.2	1,325.5	1,094.9	4,597.4	4,800.8	4,832.9
Car business	83.3	82.3	91.4	94.5	85.8	84.8	94.1	97.3	351.5	362.0	380.1
Trading	174.9	151.3	133.3	116.7	96.2	98.1	106.3	111.3	576.2	412.0	459.1
SK Magic	211.3	214.1	214.3	203.5	220.0	223.4	221.1	212.8	843.2	877.3	903.2
Hotel	74.0	75.4	82.7	90.8	82.0	82.1	90.2	97.9	322.9	352.2	367.5
Other	21.7	12.4	10.1	9.7	22.6	22.6	22.6	22.6	53.9	90.4	90.4
Operating profit	**16.5**	**43.0**	**22.3**	**4.4**	**32.6**	**27.9**	**34.2**	**33.0**	**86.2**	**127.6**	**138.8**
Information communication	14.3	36.2	14.9	10.8	22.1	18.6	19.2	18.4	76.2	78.3	79.2
Car business	4.6	2.8	4.6	5.0	3.5	3.3	4.7	5.4	17.0	16.9	19.8
Trading	1.8	1.3	1.3	0.3	0.3	0.4	0.6	0.7	4.7	2.0	3.0
SK Magic	17.6	19.5	16.7	1.2	19.4	17.0	20.1	17.2	55.0	73.7	79.3
Hotel	3.0	4.6	5.8	7.7	5.4	6.7	7.7	9.3	21.1	29.0	29.9
Other	-24.8	-21.4	-21.0	-20.6	-18.1	-18.1	-18.1	-18.1	-87.8	-72.4	-72.4
Operating margin (%)	**1.0**	**2.8**	**1.1**	**0.3**	**1.8**	**1.7**	**1.8**	**2.0**	**1.3**	**1.9**	**2.0**
Information communication	1.3	3.7	1.0	1.0	1.7	1.7	1.4	1.7	1.7	1.6	1.6
Car business	5.5	3.4	5.0	5.3	4.0	3.9	5.0	5.6	4.8	4.7	5.2
Trading	1.0	0.9	1.0	0.3	0.4	0.4	0.6	0.7	0.8	0.5	0.7
SK Magic	8.3	9.1	7.8	0.6	8.8	7.6	9.1	8.1	6.5	8.4	8.8
Hotel	4.1	6.1	7.0	8.5	6.6	8.1	8.5	9.5	6.5	8.2	8.1
Pre-tax profit	**0.6**	**25.8**	**24.5**	**10.2**	**21.6**	**15.3**	**23.8**	**21.6**	**51.6**	**82.3**	**96.6**
Pre-tax margin (%)	0.0	1.7	1.2	0.6	1.2	0.9	1.3	1.3	0.9	1.2	1.4
Net profit	**-5.4**	**26.1**	**19.1**	**10.1**	**15.7**	**11.1**	**17.3**	**15.7**	**50.0**	**59.7**	**70.0**
Net margin (%)	-0.3	1.7	1.0	0.6	0.9	0.7	0.9	1.0	0.7	0.9	1.0
Net profit (controlling interests)	**-5.0**	**25.3**	**19.2**	**10.4**	**15.7**	**11.1**	**17.3**	**15.7**	**49.8**	**59.7**	**70.0**

Source: Company data, Samsung Securities estimates

SK Networks: Sum-of-the-parts valuation

	(KRWb)
Consolidated value (A)	2,353.2
1) Trading business	1,368.6
- EBITDA	100.7
- Target EV/EBITDA (x)*	13.6
2) Car business	53.9
- EBITDA	18.1
- Target EV/EBITDA (x)*	3.0
3) Hotel business	487.8
- EBITDA	49.2
- Target EV/EBITDA (x)*	9.9
4) SK Magic	442.8
- EBITDA	117.8
- Target EV/EBITDA (x)*	3.8
Net debt (B)	1,096.4
Treasury stock value (C)**	25.0
Enterprise value (D=A-B+C)	1,281.7
Outstanding shares	200,593,889
Target price (KRW)	**6,400**

Note: *20% discount to peer average; **30% discount to closing price in 4/22
Source: Bloomberg, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**7,657**	**6,745**	**6,895**	**7,033**	**7,211**
Cost of goods sold	6,797	5,877	5,990	6,096	6,240
Gross profit	**860**	**868**	**904**	**937**	**971**
Gross margin (%)	11.2	12.9	13.1	13.3	13.5
SG&A expenses	746	782	777	798	821
Operating profit	**114**	**86**	**128**	**139**	**150**
Operating margin (%)	1.5	1.3	1.9	2.0	2.1
Non-operating gains (losses)	**-60**	**-35**	**-45**	**-42**	**-39**
Financial profit	132	117	14	15	17
Financial costs	193	147	60	58	57
Equity-method gains (losses)	-15	-8	0	0	0
Other	17	3	1	1	1
Pre-tax profit	**54**	**52**	**82**	**97**	**111**
Taxes	8	2	23	27	30
Effective tax rate (%)	14.7	3.4	27.5	27.5	27.5
Profit from continuing operations	21	59	60	70	80
Profit from discontinued operations	25	-9	0	0	0
Net profit	**46**	**50**	**60**	**70**	**80**
Net margin (%)	0.6	0.7	0.9	1.0	1.1
Net profit (controlling interests)	48	50	60	70	80
Net profit (non-controlling interests)	-2	0	0	0	0
EBITDA	666	247	261	272	283
EBITDA margin (%)	8.7	3.7	3.8	3.9	3.9
EPS (parent-based) (KRW)	214	225	289	349	400
EPS (consolidated) (KRW)	207	226	289	349	400
Adjusted EPS (KRW)*	214	225	289	349	400

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**2,007**	**1,835**	**1,890**	**2,085**	**2,303**
Cash & equivalents	444	448	364	416	487
Accounts receivable	506	512	272	338	403
Inventories	388	356	419	479	540
Other current assets	668	517	835	853	873
Fixed assets	**3,150**	**3,206**	**3,255**	**3,304**	**3,354**
Investment assets	406	400	1,256	1,262	1,269
Tangible assets	1,181	1,035	1,078	1,121	1,164
Intangible assets	625	640	640	640	640
Other long-term assets	938	1,131	281	281	281
Total assets	**5,157**	**5,041**	**5,145**	**5,389**	**5,657**
Current liabilities	**1,965**	**1,785**	**1,865**	**2,060**	**2,255**
Accounts payable	579	683	729	762	797
Short-term debt	444	147	147	147	147
Other current liabilities	942	955	989	1,151	1,311
Long-term liabilities	**1,139**	**1,230**	**1,251**	**1,273**	**1,301**
Bonds & long-term debt	881	969	1,096	1,096	1,096
Other long-term liabilities	259	261	154	177	204
Total liabilities	**3,104**	**3,015**	**3,116**	**3,333**	**3,555**
Owners of parent equity	**2,054**	**2,024**	**2,027**	**2,054**	**2,099**
Capital stock	649	649	597	597	597
Capital surplus	774	766	694	694	694
Retained earnings	759	756	768	794	840
Other	-128	-147	-32	-32	-32
Non-controlling interests' equity	**-1**	**2**	**2**	**2**	**2**
Total equity	**2,053**	**2,026**	**2,029**	**2,056**	**2,101**
Net debt	1,098	1,002	1,096	1,044	974

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**276**	**222**	**224**	**227**	**240**
Net profit	46	50	60	70	80
Non-cash profit and expenses	732	219	229	242	246
Depreciation	520	136	113	113	113
Amortization	31	24	20	20	20
Other	181	59	96	109	113
Changes in A/L from operating activities	-369	35	-65	-86	-87
Cash flow from investments	**546**	**75**	**51**	**56**	**53**
Change in tangible assets	-55	-69	-64	-64	-65
Change in financial assets	83	108	122	122	122
Other	518	36	-8	-2	-4
Cash flow from financing	**-738**	**-301**	**-359**	**-231**	**-222**
Change in debt	-3,119	-200	0	0	0
Change in equity	-2	-8	-123	0	0
Dividends	-60	-49	-49	-49	-49
Other	2,444	-45	-183	-183	-183
Change in cash	107	4	-85	52	71
Cash at beginning of year	337	444	448	364	416
Cash at end of year	444	448	364	416	487
Gross cash flow	**779**	**269**	**289**	**312**	**326**
Free cash flow	**147**	**144**	**151**	**153**	**165**

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	2.7	-11.9	2.2	2.0	2.5
Operating profit	41.4	-24.2	47.9	8.8	7.9
Net profit	748.0	8.0	19.4	17.3	14.6
Adjusted EPS**	-18.4	5.3	28.3	20.8	14.6
Per-share data (KRW)					
EPS (parent-based)	214	225	289	349	400
EPS (consolidated)	207	226	289	349	400
Adjusted EPS**	214	225	289	349	400
BVPS	9,398	9,212	9,815	10,181	10,361
DPS (common)	300	250	250	200	200
Valuations (x)					
P/E***	19.4	20.1	18.7	15.5	13.5
P/B***	0.4	0.4	0.6	0.5	0.5
EV/EBITDA	3.0	8.1	7.6	7.2	6.7
Ratios (%)					
ROE	0.1	2.6	2.9	2.9	3.4
ROA	0.6	1.0	1.2	1.3	1.5
ROIC	1.9	3.2	4.2	5.4	6.1
Payout ratio	125.7	97.0	72.6	49.5	43.2
Dividend yield (common)	7.2	5.5	4.6	3.7	3.7
Net debt to equity	53.5	49.5	54.0	50.8	46.3
Interest coverage (x)	1.2	1.3	2.1	2.4	2.6

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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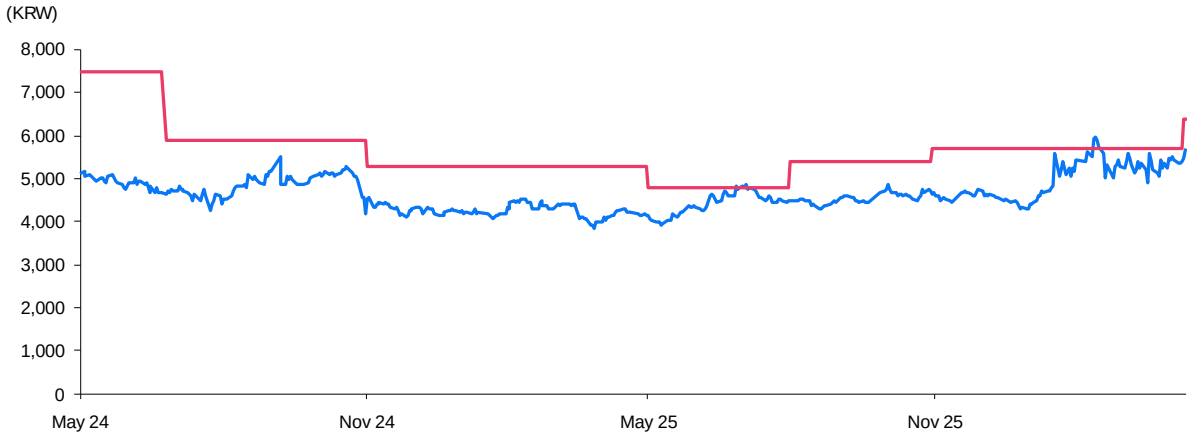
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/2/14	7/8	11/14	2025/5/14	8/13	11/12	2026/4/23
Recommendation	HOLD	BUY	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	7500	5900	5300	4800	5400	5700	6400
Gap* (average)	-26.36	-17.53	-19.55	-7.64	-15.84	-12.86	
(max or min)**	-9.73	-6.78	-14.25	1.67	-10.19	4.74	

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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Percentage of ratings in 12 months prior to 2026.03.31

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