COMPANY UPDATE

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Tech Team

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Kakao (035720)

Kakao Games deconsolidation lifts profitability

- Kakao's 1Q26 operating profit surged 84% y-y, beating consensus by 18%, following the exclusion of Kakao Games from consolidated accounts.
- Given the persistent uncertainty surrounding AI agent performance and outlook, further share price upside should require strengthening core business growth or presenting new growth drivers.

WHAT'S THE STORY?

Profitability improves in 1Q following deconsolidation of Kakao Games: Kakao reported solid 1Q results showing sales up 4.4% y-y and operating profit up 83.9% y-y to KRW211.4b (beating consensus by 17.9%), which owed mainly to exclusion of Kakao Games from consolidated accounts. Excluding Kakao Games on a retrospective basis, sales and operating profit rose 11.1% and 66% y-y, respectively. Ad sales rose 18.2% y-y driven by message ads, and Kakao Pay sales jumped 41.7% y-y on increased overseas stock trading. In contrast, portal and story sales kept falling, down 8.8% and 14.2% y-y, respectively.

Focusing on core businesses via disposal of loss-making subsidiaries: The company has been divesting loss-making subsidiaries (eg, Kakao Healthcare and Kakao Games) since last year to improve margin and focus on core platform business. Further profitability gains are expected in 2Q from the sale of AXZ (a subsidiary operating the Daum portal service). Ad sales should sustain double-digit growth this year, supported by message and short-form ad expansion.

(Continued on the next page)

AT A GLANCE

BUY

Target price	KRW60,000	44.8%
Current price	KRW41,450	
Market cap	KRW18.3t/USD12.2b	
Shares (float)	441,690,614 (75.6%)	
52-week high/low	KRW70,400/KRW39,000	
Avg daily trading value (60-day)	KRW102.9b/ USD68.4m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Kakao (%)	-13.7	-32.0	6.3
Vs Kospi (%pts)	-30.6	-66.6	-65.1

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	60,000	59,000	1.7%
2026E EPS	1,564	1,564	0.0%
2027E EPS	2,208	2,208	0.0%

SAMSUNG vs THE STREET

No of estimates	18
Target price	72,556
Recommendation	4.0

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

SUMMARY 1Q RESULTS

(KRWb)	1Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	1,942.1	4.2	-8.4	0.0	n/a
Operating profit	211.4	100.6	-9.1	0.0	n/a
Pre-tax profit	263.2	43.5	nm	-0.0	n/a
Net profit	226.8	13.2	nm	-0.0	n/a
Margins (%)					
Operating profit	10.9				
Pre-tax profit	13.6				
Net profit	11.7				

Source: Company data, FnGuide, Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuations (x)			
P/E	39.4	26.5	18.8
P/B	2.3	1.5	1.4
EV/EBITDA	16.4	10.1	8.5
Div yield (%)	0.1	0.2	0.2
EPS growth (% y-y)	nm	2.4	41.2
ROE (%)	4.6	5.0	6.8
Per-share data (KRW)			
EPS	1,527	1,564	2,208
BVPS	25,625	26,925	28,727
DPS	75	101	101

AI performance remains underwhelming: 'Kanana in KakaoTalk' and 'ChatGPT for Kakao'—critical to Kakao's AI strategy—have received low ratings for user preference and buzz since launch. The company stated that it is deliberately pacing the rollout of its AI services to ensure a phased launch, and plans to improve user experience by focusing on model enhancement and vertical partnerships.

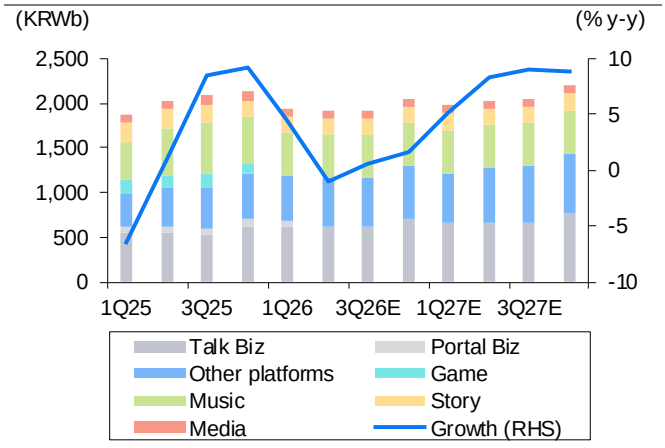
New growth drivers key to valuation: We raise our target price for the stock by 1.7% to KRW60,000 (based on 3.2x 2026 forward P/S, a 5% discount to global peers' average to reflect differences in margin). The stock now trades at 29x 2026 P/E (higher than global peers). To justify the valuation, it needs to strengthen core business growth and unveil new drivers (eg, won-pegged stablecoins).

1Q review

(KRWb)	1Q26			Diff (%)		1Q25	4Q25	Chg	
	Result	Samsung	Consensus	Samsung	Consensus			(% y-y)	(% q-q)
Sales	**1,942.1**	**2,011.7**	**2,009.1**	**(3.5)**	**(3.3)**	**1,860.6**	**2,133.2**	**4.4**	**(9.0)**
Platform	1,182.7	1,161.6		1.8		989.9	1,222.6	19.5	(3.3)
Talk Biz	608.6	618.9		(1.7)		553.3	627.1	10.0	(3.0)
Portal Biz	67.6	68.9		(1.9)		74.1	71.7	(8.8)	(5.7)
Other platforms	506.5	473.8		6.9		365.6	523.9	38.5	(3.3)
Content	759.4	850.1		(10.7)		870.7	910.6	(12.8)	(16.6)
Game	0.0	105.2		(100.0)		145.2	97.9	(100.0)	(100.0)
Music	484.6	446.6		8.5		437.9	525.1	10.7	(7.7)
Story	182.4	204.4		(10.7)		212.6	191.8	(14.2)	(4.9)
Media	92.4	93.9		(1.5)		75.1	95.8	23.1	(3.5)
Operating expenses	**1,730.7**	**1,840.6**		**(6.0)**		**1,745.7**	**1,929.8**	**(0.9)**	**(10.3)**
Labor costs	444.9	471.9		(5.7)		472.1	497.4	(5.8)	(10.6)
Cost of sales	701.2	727.8		(3.7)		697.5	768.0	0.5	(8.7)
Marketing costs	72.5	94.5		(23.3)		86.5	116.3	(16.2)	(37.6)
Outsourcing/infra	208.2	251.5		(17.2)		204.9	250.0	1.6	(16.7)
D&A expenses	196.8	205.9		(4.4)		204.9	204.3	(3.9)	(3.6)
Other	107.1	89.0		20.3		79.8	93.7	34.2	14.3
Operating profit	**211.4**	**171.1**	**179.2**	**23.6**	**17.9**	**114.9**	**203.4**	**83.9**	**3.9**
Pre-tax profit	263.2	199.7	229.5	31.8	14.7	183.4	(29.8)	43.5	nm
Net profit	226.8	149.8	183.7	51.5	23.5	200.3	(47.1)	13.2	nm
Net profit (controlling)	171.7	157.3	161.3	9.2	6.5	171.9	33.5	(0.1)	413.0
Margins (%)									
Operating profit	10.9	8.5	8.9			6.2	9.5		
Pre-tax profit	13.6	9.9	11.4			9.9	(1.4)		
Net profit	11.7	7.4	9.1			10.8	(2.2)		
Net profit (controlling)	8.8	7.8	8.0			9.2	1.6		

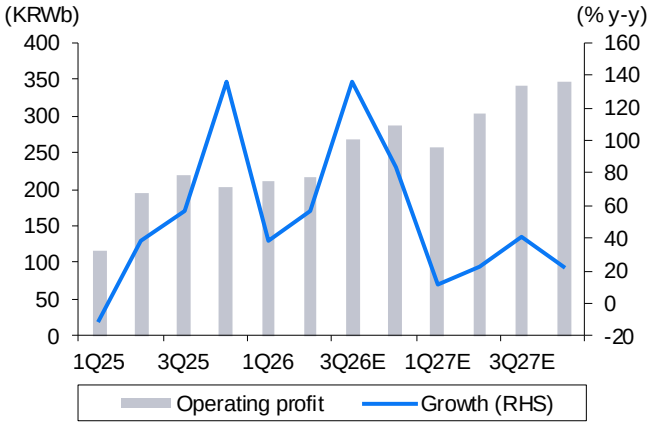
Source: Company data, FnGuide, Samsung Securities estimates

Quarterly sales, by division



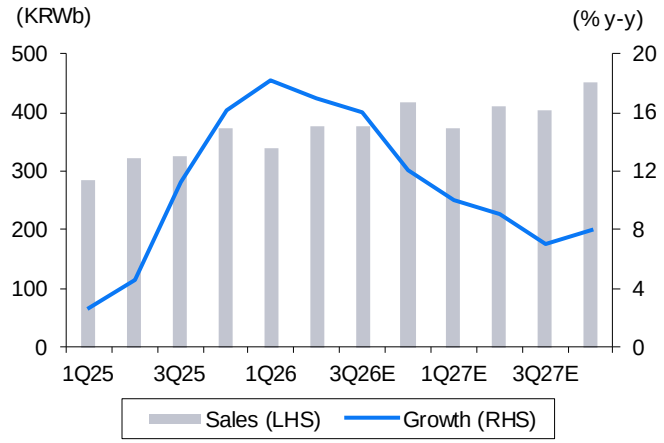
Source: Company data, Samsung Securities estimates

Quarterly operating profit



Source: Company data, Samsung Securities estimates

Talk Biz: Ad sales

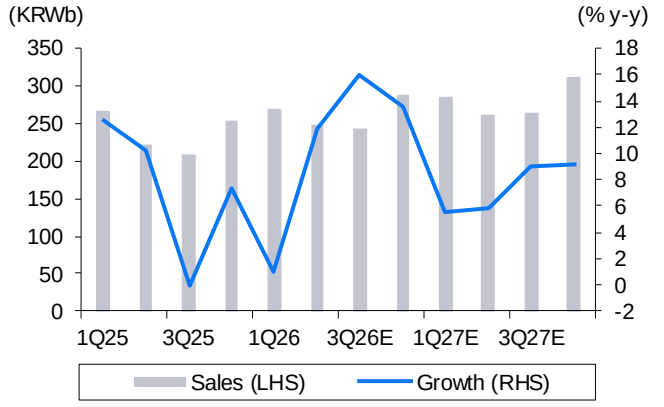


Source: Company data, Samsung Securities estimates

3Q25 KakaoTalk brand message

Source: Company data

Talk Biz: Commerce sales

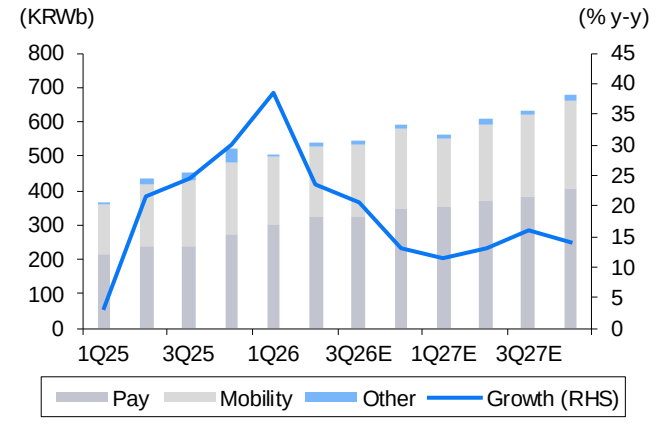


Source: Company data, Samsung Securities estimates

Kakao "Shopping Festa"

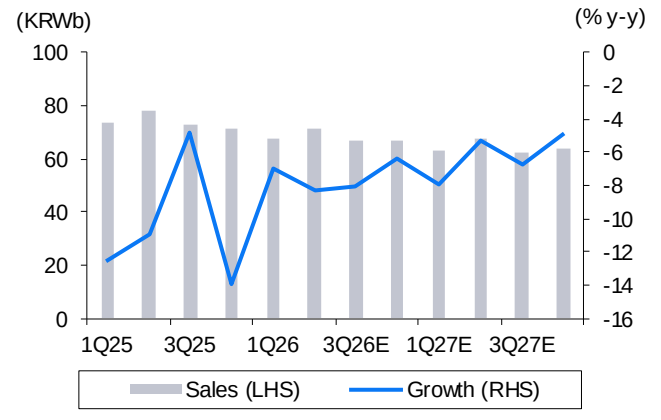
Source: Company data

Other platforms: Sales



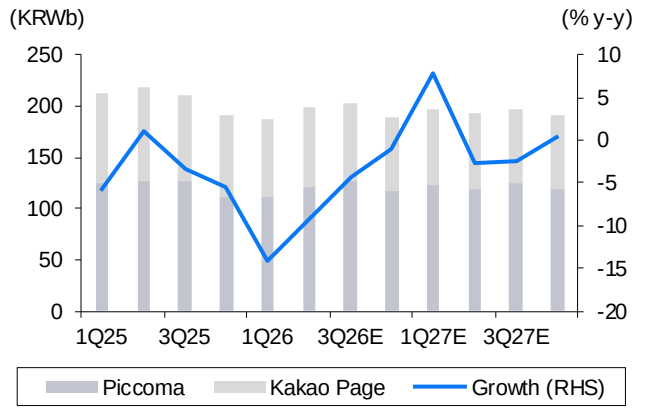
Source: Company data, Samsung Securities estimates

Portal Biz: Sales



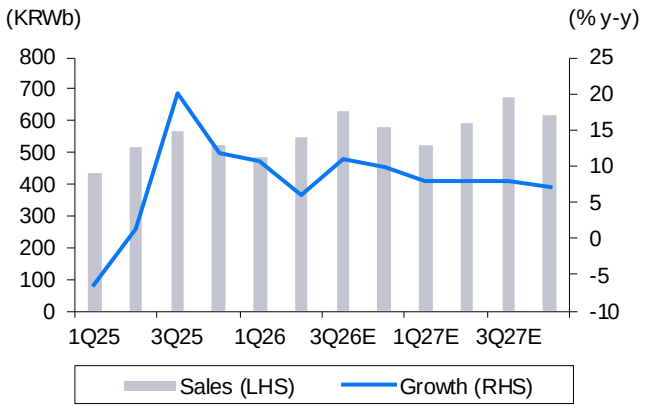
Source: Company data, Samsung Securities estimates

Story: Sales



Source: Company data, Samsung Securities estimates

Music: Sales



Source: Company data, Samsung Securities estimates

Kakao: Valuation

(KRWb)	
12-month forward sales	8,212
Target P/S* (x)	3.2
Fair market value	26,398
Outstanding shares ('000)	442,510
Fair share price (KRW)	59,656
Target price (KRW)	**60,000**
Current price (KRW)	45,250
Upside (%)	32.6%

Note: *5% discount to peer group's 2026 P/S;
Based on May 7 closing price
Source: Samsung Securities estimates

Peers: P/S and P/E valuations

(x)	P/E		P/S	
	2026E	**2027E**	**2026E**	**2027E**
Meta Platforms	17.6	15.9	6.2	5.2
Tencent	13.6	12.2	4.5	4.1
Alibaba	29.7	19.4	2.2	2.0
LY Corporation	16.3	16.2	1.5	1.4
Baidu	17.7	15.2	2.5	2.4
Average	**19.0**	**15.8**	**3.4**	**3.0**
Discount rate (%)	-5.0	-5.0	-5.0	-5.0
Target multiple	**18.0**	**15.0**	**3.2**	**2.9**

Note: As of May 7 close
Source: Bloomberg

Quarterly results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
Sales	**1,861**	**2,024**	**2,081**	**2,133**	**1,942**	**2,006**	**2,095**	**2,169**	**2,043**	**2,172**	**2,285**	**2,362**
Platform	990	1,051	1,055	1,223	1,183	1,160	1,165	1,298	1,222	1,277	1,299	1,440
Talk Biz	553	542	534	627	609	623	619	705	657	671	668	765
Portal Biz	74	78	73	72	68	0	0	0	0	0	0	0
Other platforms	366	435	453	524	506	537	545	593	565	606	631	676
Content	871	973	1,027	911	759	846	930	871	822	895	986	922
Game	145	143	154	98	0	0	0	0	0	0	0	0
Music	438	518	565	525	485	549	627	578	523	592	678	618
Story	213	219	211	192	182	199	202	190	197	193	197	191
Media	75	94	96	96	92	99	101	104	102	109	111	113
Operating expenses	**1,746**	**1,829**	**1,863**	**1,930**	**1,731**	**1,788**	**1,828**	**1,883**	**1,785**	**1,869**	**1,943**	**2,015**
Labor costs	472	482	471	497	445	440	442	472	448	450	452	484
Cost of sales	697	713	742	768	701	707	738	751	717	753	789	805
Marketing costs	87	87	101	116	73	90	94	119	82	91	114	130
Outsourcing/infra	205	232	259	250	208	251	262	239	239	269	283	283
D&A expenses	205	221	208	204	197	191	188	194	198	202	206	210
Other	80	93	82	94	107	109	104	108	100	103	98	102
Operating profit	**115**	**195**	**218**	**203**	**211**	**218**	**267**	**286**	**259**	**303**	**342**	**347**
Pre-tax profit	183	186	244	-30	263	255	313	84	306	359	397	180
Net profit	200	172	193	-47	227	194	238	64	233	273	301	137
Net profit (controlling)	172	161	125	33	172	165	202	45	209	245	271	110
Adjusted EPS (KRW)	382	455	302	-152	344	407	493	320	514	585	649	461
Margins (%)												
Operating profit	6.2	9.6	10.5	9.5	10.9	10.9	12.8	13.2	12.7	14.0	14.9	14.7
Pre-tax profit	9.9	9.2	11.7	(1.4)	13.6	12.7	14.9	3.9	15.0	16.5	17.4	7.6
Net profit	10.8	8.5	9.3	(2.2)	11.7	9.7	11.4	2.9	11.4	12.5	13.2	5.8
Net profit (controlling)	9.2	8.0	6.0	1.6	8.8	8.2	9.6	2.1	10.3	11.3	11.9	4.6

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	**8,447**	**8,212**	**(2.8)**	**8,886**	**8,862**	**(0.3)**	**9,580**	**9,641**	**0.6**
Platform	4,831	4,805	(0.5)	5,270	5,238	(0.6)	5,739	5,788	0.9
Talk Biz	2,466	2,556	3.7	2,634	2,760	4.8	2,826	2,993	5.9
Portal Biz	275	68	(75.4)	258	0	(100.0)	242	0	(100.0)
Other platforms	2,090	2,181	4.4	2,378	2,478	4.2	2,671	2,796	4.7
Content	3,616	3,407	(5.8)	3,616	3,624	0.2	3,840	3,853	0.3
Game	199	0	(100.0)	0	0	n/a	0	0	n/a
Music	2,195	2,238	2.0	2,365	2,411	2.0	2,548	2,598	2.0
Story	826	773	(6.4)	818	777	(4.9)	819	780	(4.8)
Media	396	396	(0.1)	434	435	0.3	473	475	0.3
Operating expenses	**7,485**	**7,229**	**(3.4)**	**7,636**	**7,612**	**(0.3)**	**8,186**	**8,149**	**(0.5)**
Labor costs	1,825	1,798	(1.5)	1,789	1,834	2.5	1,867	1,882	0.8
Cost of sales	3,057	2,897	(5.2)	3,103	3,064	(1.3)	3,305	3,288	(0.5)
Marketing costs	367	376	2.6	376	417	10.9	405	453	11.8
Outsourcing/infra	1,023	959	(6.2)	1,078	1,075	(0.3)	1,233	1,241	0.6
D&A expenses	840	771	(8.3)	905	817	(9.7)	979	884	(9.7)
Other	373	428	14.8	385	404	4.8	397	400	0.8
Operating profit	**962**	**983**	**2.2**	**1,249**	**1,250**	**0.1**	**1,394**	**1,493**	**7.1**
Pre-tax profit	727	915	25.9	1,065	1,242	16.6	1,259	1,529	21.5
Net profit	545	722	32.5	799	944	18.2	944	1,162	23.1
Net profit (controlling)	571	583	2.2	822	836	1.7	962	1,035	7.6
Adjusted EPS (KRW)	1,625	1,564	(3.8)	2,262	2,208	(2.4)	2,538	2,640	4.0
Margins (%)									
Operating profit	11.4	12.0		14.1	14.1		14.5	15.5	
Pre-tax profit	8.6	11.1		12.0	14.0		13.1	15.9	
Net profit	6.5	8.8		9.0	10.7		9.9	12.1	
Net profit (controlling)	6.8	7.1		9.2	9.4		10.0	10.7	

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**7,864**	**8,099**	**8,212**	**8,862**	**9,641**
Cost of goods sold	0	0	0	0	0
Gross profit	**7,864**	**8,099**	**8,212**	**8,862**	**9,641**
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	7,369	7,367	7,229	7,612	8,149
Operating profit	**495**	**732**	**983**	**1,250**	**1,493**
Operating margin (%)	6.3	9.0	12.0	14.1	15.5
Non-operating gains (losses)	**-497**	**-119**	**-68**	**-9**	**37**
Financial profit	405	393	395	434	448
Financial costs	368	398	353	400	428
Equity-method gains (losses)	56	90	112	125	140
Other	-590	-204	-222	-168	-124
Pre-tax profit	**-1**	**613**	**915**	**1,242**	**1,529**
Taxes	160	95	202	298	367
Effective tax rate (%)	-11,588.1	15.5	22.1	24.0	24.0
Profit from continuing operations	-111	527	782	944	1,162
Profit from discontinued operations	-51	-9	-60	0	0
Net profit	**-162**	**518**	**722**	**944**	**1,162**
Net margin (%)	-2.1	6.4	8.8	10.7	12.1
Net profit (controlling interests)	55	491	583	836	1,035
Net profit (non-controlling interests)	-217	26	139	108	127
EBITDA	1,331	1,572	1,753	2,068	2,377
EBITDA margin (%)	16.9	19.4	21.4	23.3	24.7
EPS (parent-based) (KRW)	124	1,110	1,319	1,892	2,343
EPS (consolidated) (KRW)	-365	1,170	1,634	2,137	2,632
Adjusted EPS (KRW)*	-193	1,527	1,564	2,208	2,640

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**1,250**	**1,405**	**1,499**	**2,239**	**2,429**
Net profit	-162	518	722	944	1,162
Non-cash profit and expenses	1,462	1,014	780	906	1,012
Depreciation	576	583	546	595	644
Amortization	260	258	225	222	241
Other	627	174	9	89	127
Changes in A/L from operating activities	-4	-106	11	506	436
Cash flow from investments	**10**	**-478**	**-1,113**	**-1,223**	**-1,337**
Change in tangible assets	-348	-465	-600	-654	-708
Change in financial assets	164	-843	-319	-379	-422
Other	194	830	-193	-189	-207
Cash flow from financing	**-521**	**-708**	**-175**	**-161**	**-164**
Change in debt	-36	-404	9	35	33
Change in equity	71	-108	0	0	0
Dividends	-43	-39	-33	-44	-44
Other	-513	-158	-151	-152	-153
Change in cash	781	204	-466	-45	-267
Cash at beginning of year	5,389	6,170	6,374	5,908	5,863
Cash at end of year	6,170	6,374	5,908	5,863	5,596
Gross cash flow	**1,300**	**1,532**	**1,502**	**1,850**	**2,174**
Free cash flow	**871**	**926**	**899**	**1,585**	**1,720**

Note: *Excluding one-off items;
**Fully diluted, excluding one-off items;
***From companies subject to equity-method valuation
Source: Company data, Samsung Securities estimates

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**10,722**	**12,374**	**12,404**	**12,976**	**13,398**
Cash & equivalents	6,170	6,374	5,908	5,863	5,596
Accounts receivable	549	569	616	667	722
Inventories	81	77	85	92	99
Other current assets	3,922	5,354	5,795	6,353	6,981
Fixed assets	**15,051**	**15,409**	**16,273**	**17,408**	**18,867**
Investment assets	5,750	6,066	6,855	7,909	9,280
Tangible assets	1,363	1,557	1,611	1,671	1,735
Intangible assets	5,171	5,228	5,250	5,272	5,297
Other long-term assets	2,768	2,559	2,556	2,556	2,556
Total assets	**25,773**	**27,784**	**28,677**	**30,384**	**32,266**
Current liabilities	**8,545**	**8,780**	**8,956**	**9,651**	**10,309**
Accounts payable	228	228	233	254	274
Short-term debt	1,458	938	938	938	938
Other current liabilities	6,859	7,613	7,784	8,459	9,097
Long-term liabilities	**3,285**	**3,779**	**3,807**	**3,919**	**4,024**
Bonds & long-term debt	328	991	991	991	991
Other long-term liabilities	2,957	2,788	2,817	2,928	3,034
Total liabilities	**11,830**	**12,559**	**12,763**	**13,570**	**14,334**
Owners of parent equity	**10,141**	**11,276**	**11,826**	**12,618**	**13,609**
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	3,235	4,026	5,017
Other	-758	-256	-256	-256	-256
Non-controlling interests' equity	**3,802**	**3,949**	**4,088**	**4,196**	**4,323**
Total equity	**13,943**	**15,225**	**15,914**	**16,814**	**17,932**
Net debt	-3,384	-4,792	-4,629	-4,899	-4,994

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	4.1	3.0	1.4	7.9	8.8
Operating profit	7.5	47.8	34.3	27.2	19.4
Net profit	nm	nm	39.4	30.7	23.2
Adjusted EPS**	nm	nm	2.4	41.2	19.5
Per-share data (KRW)					
EPS (parent-based)	124	1,110	1,319	1,892	2,343
EPS (consolidated)	-365	1,170	1,634	2,137	2,632
Adjusted EPS**	-193	1,527	1,564	2,208	2,640
BVPS	23,100	25,625	26,925	28,727	30,982
DPS (common)	68	75	101	101	101
Valuations (x)					
P/E***	n/a	39.4	26.5	18.8	15.7
P/B***	1.7	2.3	1.5	1.4	1.3
EV/EBITDA	13.0	16.4	10.1	8.5	7.4
Ratios (%)					
ROE	0.6	4.6	5.0	6.8	7.9
ROA	-0.6	1.9	2.6	3.2	3.7
ROIC	-22.5	16.0	22.5	28.3	36.8
Payout ratio	54.0	6.7	7.6	5.3	4.3
Dividend yield (common)	0.2	0.1	0.2	0.2	0.2
Net debt to equity	-24.3	-31.5	-29.1	-29.1	-27.9
Interest coverage (x)	2.4	4.1	6.5	8.2	9.7

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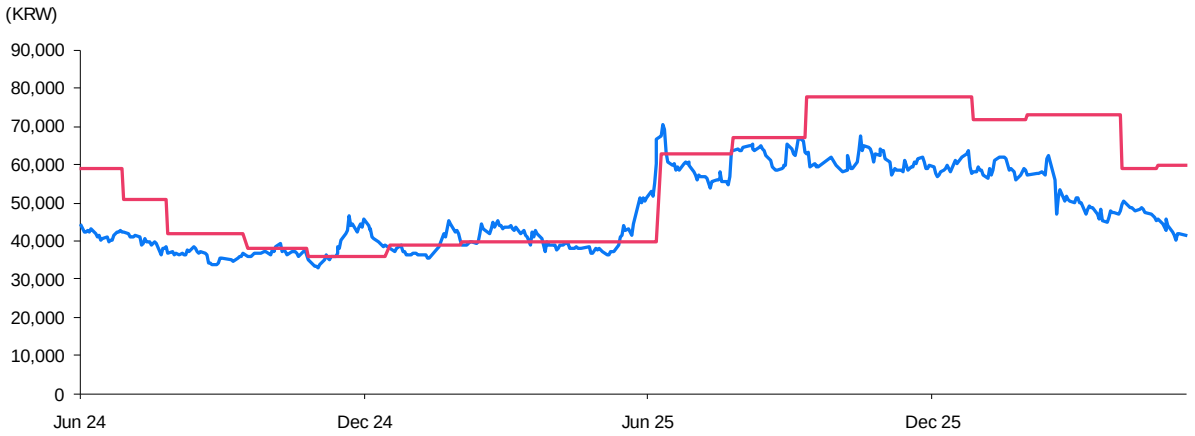
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/5/10	7/12	8/9	9/30	11/8	12/30	2025/2/14	6/23	8/8	9/24	2026/1/9	2/13
Recommendation	BUY	BUY	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	BUY	BUY	BUY
Target price (KRW)	59000	51000	42000	38000	36000	39000	40000	63000	67000	78000	72000	73000
Gap* (average)												
(max or min)**												

Date	4/15	5/8
Recommendation	BUY	BUY
Target price (KRW)	59000	60000
Gap* (average)		
(max or min)**		

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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