COMPANY UPDATE

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Kakao (035720)

Earnings momentum picking up steam

- Kakao's 2Q operating profit climbed 36% y-y, beating consensus by 22%, on robust growth in platform sales and cost-cutting efforts.
- We increase our target price by 11% to KRW49,000, reflecting: 1) robust growth in KakaoTalk ad sales, Kakao Pay sales, and mobility revenue; and 2) earnings improvement through restructuring.

AT A GLANCE

BUY

Target price	KRW49,000	23.9%
Current price	KRW39,550	
Market cap	KRW17.5t/USD12.3b	
Shares (float)	442,981,070 (75.7%)	
52-week high/low	KRW67,700/KRW33,150	
Avg daily trading value (60-day)	KRW90.9b/ USD64.1m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Kakao (%)	11.9	-32.2	-38.0
Vs Kospi (%pts)	32.8	-42.9	-68.4

KEY CHANGES

(KRW)	New	Old	Diff
Recommend.	BUY	BUY	
Target price	49,000	44,000	11.4%
2026E EPS	1,152	1,538	-25.1%
2027E EPS	2,183	1,959	11.4%

SAMSUNG vs THE STREET

No of estimates	16
Target price	59,375
Recommendation	4.0

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

WHAT'S THE STORY?

2Q review—Robust growth in platform business and profitability improvement: Kakao's 2Q sales grew 9.9% y-y on rising platform sales. KakaoTalk ad sales increased 14% y-y, supported by strong growth in brand message ads, while sales at the commerce segment grew 10% y-y on seasonal gift spending during Family Month. Kakao Pay's sales jumped 41% y-y, fueled by higher securities trading volumes. The mobile segment likely delivered double-digit sales growth, backed by new services such as parking and quick delivery. Content sales remained flat y-y due to reduction in story sales and low growth in the music and media segments. As operating expenses expanded just 6% y-y due to tight controls (*eg*, labor costs), operating profit jumped 36% y-y, topping consensus by 22%.

Profitability improves based on KakaoTalk ad and cost control: The company's ad sales maintained double-digit growth thanks to strong performance in brand message ads and feed-based display ads. While growth may moderate in 2H26 on a high base, the full-year ad sales growth should still meet the company's annual target. Its profitability has been improving through the sale of loss-making subsidiaries, conservative hiring, and limited investment in AI infrastructure. The company expects its parent-based operating margin to exceed 20% over the medium to long term.

(Continued on the next page)

SUMMARY 2Q RESULTS

(KRWb)	2Q26	Chg		Diff (%)	
		(% y-y)	(% q-q)	Samsung	Consensus
Sales	2,098.5	-2.1	8.1	2.4	2.4
Operating profit	277.0	68.9	31.0	19.9	22.4
Pre-tax profit	32.9	-77.4	-88.5	-89.1	-87.7
Net profit	18.0	-89.5	-92.1	-92.2	-91.3
Margins (%)					
Operating profit	13.2				
Pre-tax profit	1.6				
Net profit	0.9				

Source: Company data, FnGuide, Samsung Securities estimates

VALUATION SUMMARY

	2025	2026E	2027E
Valuations (x)			
P/E	39.4	34.3	18.1
P/B	2.3	1.5	1.4
EV/EBITDA	16.4	9.1	8.2
Div yield (%)	0.1	0.3	0.3
EPS growth (% y-y)	nm	-24.6	89.5
ROE (%)	4.6	3.8	6.9
Per-share data (KRW)			
EPS	1,527	1,152	2,183
BVPS	25,625	26,595	28,395
DPS	75	101	101

Samsung Securities

Focus on AI agents, not infrastructure: Kakao plans to prioritize B2C AI agent services—where it holds a competitive edge—over B2B AI infrastructure businesses (eg, data centers). While this limits exposure to the broader AI infrastructure theme, the company can avoid large-scale capex (ie, continued earnings improvement). Starting in 2H26, it should begin integrating with external partners, beginning with Coupang Eats. It aims to monetize AI services from 2027 onward, though meaningful earnings contribution should take some time.

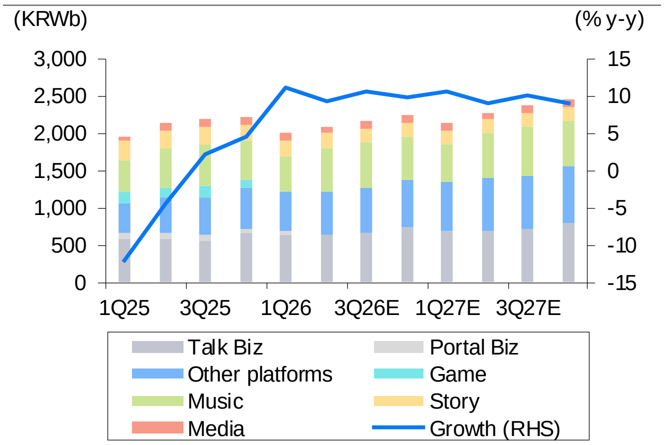
Improving earnings—positive: Considering solid growth in platform revenues (eg, advertising, payment, mobility) and the firm's improving profitability, we revise up our 2027 operating profit forecast by 8.5% and raise our target price by 11.4% from KRW44,000 to KRW49,000—based on 22.5x 2027 P/E (the average multiple for global platforms, fintech, and mobility peers), applied to 2027 EPS estimate that fully reflects the benefits of subsidiary disposals. We maintain BUY rating, reflecting confidence in the company's ongoing profitability momentum.

2Q review

(KRWb)	2Q26			Diff (%)		2Q25	1Q26	Chg	
	Actual	Samsung	Consensus	Samsung	Consensus			(% y-y)	(% q-q)
Sales	**2,098.5**	**2,048.3**	**2,049.2**	**2.4**	**2.4**	**1,917.5**	**1,942.1**	**9.4**	**8.1**
Platform	1,230.3	1,190.3		3.4		1,055.1	1,153.0	16.6	6.7
Talk Biz	643.2	606.9		6.0		572.7	630.0	12.3	2.1
Portal Biz	0.0	20.3		nm		78.3	67.6	nm	nm
Other platforms	587.0	563.1		4.3		482.4	523.0	21.7	12.2
Content	868.2	858.0		1.2		862.4	789.1	0.7	10.0
Game	0.0	0.0		nm		142.6	0.0	nm	nm
Music	558.4	564.1		(1.0)		517.9	485.5	7.8	15.0
Story	210.7	197.8		6.5		250.2	211.2	(15.8)	(0.2)
Media	99.1	96.1		3.0		94.2	92.4	5.2	7.2
Operating expenses	**1,821.4**	**1,817.2**		**0.2**		**1,713.6**	**1,730.7**	**6.3**	**5.2**
Labor costs	448.0	440.7		1.7		438.9	444.9	2.1	0.7
Cost of sales	745.9	732.9		1.8		678.5	701.2	9.9	6.4
Marketing costs	96.6	86.0		12.3		78.9	72.5	22.4	33.1
Outsourcing/infra	223.1	251.9		(11.5)		217.8	208.2	2.4	7.2
D&A expenses	191.5	200.8		(4.6)		209.0	196.8	(8.4)	(2.7)
Other	116.3	104.9		10.8		90.4	107.1	28.6	8.6
Operating profit	**277.0**	**231.1**	**226.3**	**19.9**	**22.4**	**203.9**	**211.4**	**35.9**	**31.0**
Pre-tax profit	32.9	302.4	267.2	(89.1)	(87.7)	145.7	286.6	(77.4)	(88.5)
Net profit	18.0	229.8	206.2	(92.2)	(91.3)	171.8	226.8	(89.5)	(92.1)
Net profit (controlling)	16.3	195.3	172.9	(91.6)	(90.6)	161.2	171.7	(89.9)	(90.5)
Margins (%)									
Operating profit	13.2	11.3	11.0			10.6	10.9		
Pre-tax profit	1.6	14.8	13.0			7.6	14.8		
Net profit	0.9	11.2	10.1			9.0	11.7		
Net profit (controlling)	0.8	9.5	8.4			8.4	8.8		

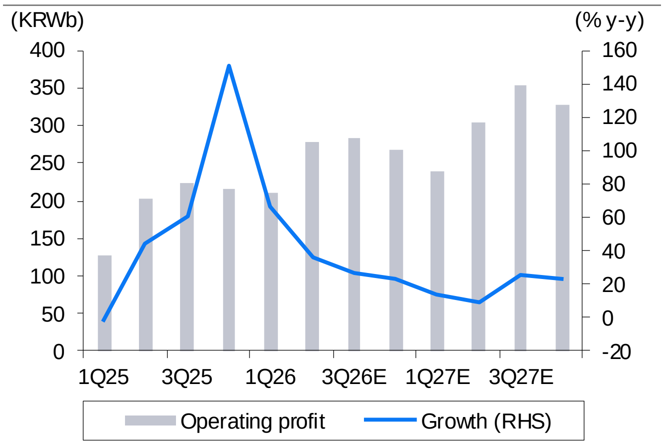
Source: Company data, FnGuide, Samsung Securities estimates

Quarterly sales, by division



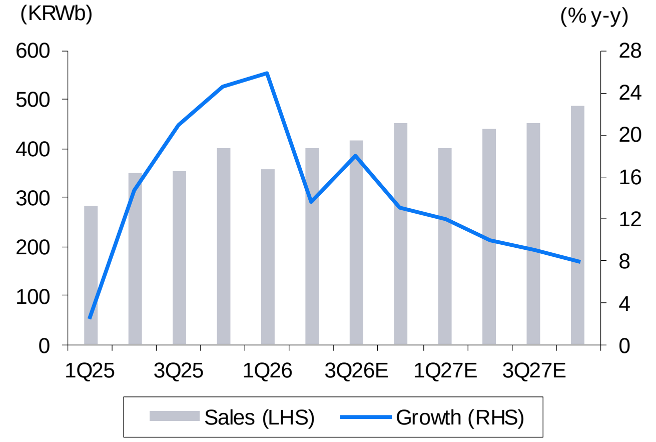
Source: Company data, Samsung Securities estimates

Quarterly operating profit



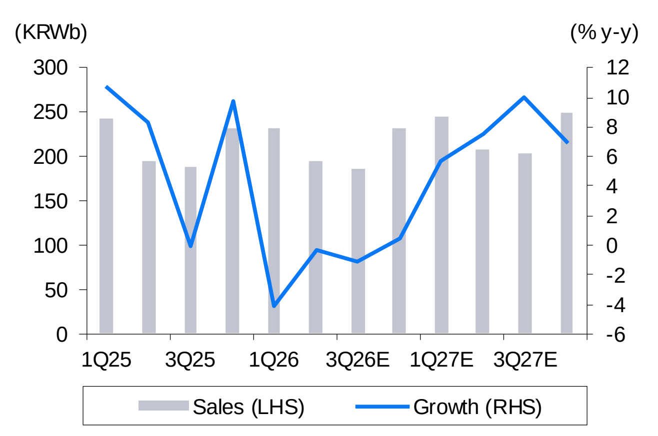
Source: Company data, Samsung Securities estimates

Talk Biz: Ad sales



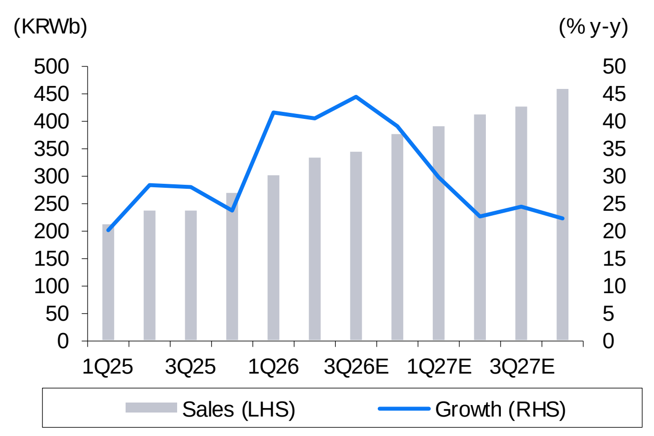
Source: Company data, Samsung Securities estimates

Talk Biz: Commerce sales



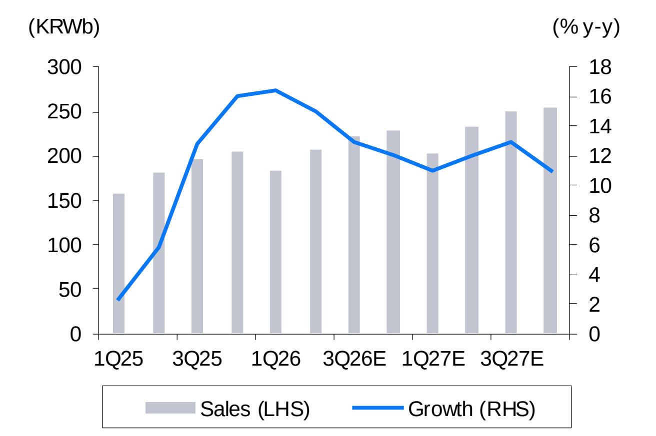
Source: Company data, Samsung Securities estimates

Pay: Sales



Source: Company data, Samsung Securities estimates

Mobility: Sales



Source: Company data, Samsung Securities estimates

Kakao: Valuation

(KRWb)	
2027E EPS	2,183
Target P/E* (x)	22.5
Fair market value	49,070
Target price (KRW)	**49,000**
Current price (KRW)	38,300
Upside (%)	27.9%

Note: *Based on the average 2027 P/E of global peer companies, as of the closing price on Aug 6
Source: Samsung Securities estimates

Peers: P/S and P/E valuations

(x)	P/E		P/S	
	2026E	**2027E**	**2026E**	**2027E**
Alphabet	19.5	22.5	10.5	8.4
Meta Platforms	16.7	15.2	5.9	4.9
Tencent	14.0	12.7	4.6	4.2
LY corporation	17.1	17.6	1.6	1.4
Circle	65.7	37.9	5.0	3.8
Gojek	59.9	29.0	2.8	2.6
Target multiple	**32.1**	**22.5**	**5.1**	**4.2**

Note: Based on closing price as of Aug 6
Source: Bloomberg

Quarterly results and forecasts

(KRWb)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
Sales	**1,861**	**2,024**	**2,081**	**2,133**	**1,942**	**2,098**	**2,172**	**2,246**	**2,147**	**2,287**	**2,391**	**2,451**
Platform	990	1,051	1,055	1,223	1,183	1,230	1,262	1,385	1,339	1,394	1,440	1,556
Talk Biz	553	542	534	627	609	643	650	733	698	700	709	788
Portal Biz	74	78	73	72	68	0	0	0	0	0	0	0
Other platforms	366	435	453	524	506	587	612	651	641	694	731	768
Content	871	973	1,027	911	759	868	910	861	808	892	951	895
Game	145	143	154	98	0	0	0	0	0	0	0	0
Music	438	518	565	525	485	558	611	573	524	603	660	613
Story	213	219	211	192	182	211	198	184	183	186	187	174
Media	75	94	96	96	92	99	101	104	101	103	105	107
Operating expenses	**1,746**	**1,829**	**1,863**	**1,930**	**1,731**	**1,821**	**1,889**	**1,978**	**1,908**	**1,983**	**2,037**	**2,122**
Labor costs	472	482	471	497	445	448	479	517	506	508	511	547
Cost of sales	697	713	742	768	701	746	760	774	743	780	809	819
Marketing costs	87	87	101	116	73	97	98	112	92	110	110	127
Outsourcing/infra	205	232	259	250	208	223	239	249	241	252	263	274
D&A expenses	205	221	208	204	197	192	191	197	201	205	210	214
Other	80	93	82	94	107	116	122	128	124	128	135	141
Operating profit	**115**	**195**	**218**	**203**	**211**	**277**	**283**	**268**	**240**	**304**	**354**	**328**
Pre-tax profit	183	186	244	-30	263	33	337	56	300	379	432	132
Net profit	200	172	193	-47	227	18	256	43	228	288	328	100
Net profit (controlling)	172	161	125	33	172	16	218	30	206	259	295	80
Adjusted EPS (KRW)	382	455	302	-152	344	17	534	262	504	606	688	386
Margins (%)												
Operating profit	6.2	9.6	10.5	9.5	10.9	13.2	13.0	11.9	11.2	13.3	14.8	13.4
Pre-tax profit	9.9	9.2	11.7	(1.4)	13.6	1.6	15.5	2.5	14.0	16.6	18.1	5.4
Net profit	10.8	8.5	9.3	(2.2)	11.7	0.9	11.8	1.9	10.6	12.6	13.7	4.1
Net profit (controlling)	9.2	8.0	6.0	1.6	8.8	0.8	10.0	1.3	9.6	11.3	12.4	3.3

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	**8,311**	**8,458**	**1.8**	**8,981**	**9,276**	**3.3**	**9,702**	**10,046**	**3.5**
Platform	4,915	5,030	2.3	5,434	5,729	5.4	5,990	6,338	5.8
Talk Biz	2,505	2,657	6.0	2,702	2,895	7.1	2,909	3,108	6.8
Portal Biz	128	68	(47.0)	76	0	nm	72	0	nm
Other platforms	2,282	2,373	4.0	2,655	2,834	6.7	3,009	3,230	7.3
Content	3,396	3,429	1.0	3,547	3,547	(0.0)	3,712	3,708	(0.1)
Game	0	0	n/a	0	0	n/a	0	0	n/a
Music	2,254	2,228	(1.1)	2,428	2,400	(1.1)	2,616	2,586	(1.1)
Story	754	804	6.6	715	730	2.1	678	691	1.9
Media	388	397	2.3	404	416	3.0	418	431	3.0
Operating expenses	**7,350**	**7,420**	**1.0**	**7,851**	**8,050**	**2.5**	**8,422**	**8,711**	**3.4**
Labor costs	1,842	1,889	2.5	1,921	2,072	7.9	2,032	2,260	11.2
Cost of sales	2,913	2,981	2.4	3,018	3,151	4.4	3,184	3,328	4.5
Marketing costs	375	379	1.1	422	440	4.1	456	507	11.2
Outsourcing/infra	985	919	(6.7)	1,168	1,030	(11.8)	1,310	1,133	(13.5)
D&A expenses	797	777	(2.5)	853	830	(2.7)	924	899	(2.7)
Other	438	474	8.2	468	528	12.8	516	585	13.3
Operating profit	**961**	**1,039**	**8.1**	**1,130**	**1,226**	**8.5**	**1,280**	**1,335**	**4.3**
Pre-tax profit	913	713	(21.9)	1,076	1,243	15.6	1,257	1,396	11.1
Net profit	703	544	(22.6)	817	945	15.6	955	1,061	11.1
Net profit (controlling)	576	436	(24.3)	728	840	15.4	853	948	11.0
Adjusted EPS (KRW)	1,538	1,152	(25.1)	1,959	2,183	11.4	2,222	2,396	7.8
Margins (%)									
Operating profit	11.6	12.3		12.6	13.2		13.2	13.3	
Pre-tax profit	11.0	8.4		12.0	13.4		13.0	13.9	
Net profit	8.5	6.4		9.1	10.2		9.8	10.6	
Net profit (controlling)	6.9	5.2		8.1	9.1		8.8	9.4	

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Sales	**7,864**	**8,099**	**8,458**	**9,276**	**10,046**
Cost of goods sold	0	0	0	0	0
Gross profit	**7,864**	**8,099**	**8,458**	**9,276**	**10,046**
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
SG&A expenses	7,369	7,367	7,420	8,050	8,711
Operating profit	**495**	**732**	**1,039**	**1,226**	**1,335**
Operating margin (%)	6.3	9.0	12.3	13.2	13.3
Non-operating gains (losses)	**-498**	**-119**	**-326**	**18**	**61**
Financial profit	405	393	376	424	430
Financial costs	368	398	360	434	466
Equity-method gains (losses)	56	90	150	176	195
Other	-592	-204	-491	-149	-99
Pre-tax profit	**-3**	**613**	**713**	**1,243**	**1,396**
Taxes	160	95	306	298	335
Effective tax rate (%)	-5,701.5	15.5	42.8	24.0	24.0
Profit from continuing operations	-111	527	784	945	1,061
Profit from discontinued operations	-51	-9	-240	0	0
Net profit	**-162**	**518**	**544**	**945**	**1,061**
Net margin (%)	-2.1	6.4	6.4	10.2	10.6
Net profit (controlling interests)	55	491	436	840	948
Net profit (non-controlling interests)	-217	26	108	105	114
EBITDA	1,331	1,572	1,822	2,056	2,234
EBITDA margin (%)	16.9	19.4	21.5	22.2	22.2
EPS (parent-based) (KRW)	124	1,110	984	1,897	2,139
EPS (consolidated) (KRW)	-365	1,170	1,228	2,133	2,396
Adjusted EPS (KRW)*	-193	1,527	1,152	2,183	2,396

Balance sheet

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Current assets	**10,722**	**12,374**	**17,504**	**18,572**	**19,339**
Cash & equivalents	6,170	6,374	7,847	7,684	7,030
Accounts receivable	549	569	557	602	652
Inventories	81	77	88	96	103
Other current assets	3,922	5,354	9,013	10,190	11,554
Fixed assets	**15,051**	**15,409**	**14,499**	**15,548**	**16,894**
Investment assets	5,750	6,066	6,521	7,487	8,743
Tangible assets	1,363	1,557	1,573	1,633	1,698
Intangible assets	5,171	5,228	3,858	3,881	3,906
Other long-term assets	2,768	2,559	2,547	2,547	2,547
Total assets	**25,773**	**27,784**	**32,003**	**34,119**	**36,233**
Current liabilities	**8,545**	**8,780**	**13,256**	**14,382**	**15,397**
Accounts payable	228	228	132	144	155
Short-term debt	1,458	938	894	894	894
Other current liabilities	6,859	7,613	12,230	13,343	14,348
Long-term liabilities	**3,285**	**3,779**	**3,010**	**3,100**	**3,181**
Bonds & long-term debt	328	991	354	354	354
Other long-term liabilities	2,957	2,788	2,656	2,746	2,828
Total liabilities	**11,830**	**12,559**	**16,266**	**17,482**	**18,578**
Owners of parent equity	**10,141**	**11,276**	**11,754**	**12,550**	**13,452**
Capital stock	44	44	44	44	44
Capital surplus	8,911	8,803	8,645	8,645	8,645
Retained earnings	1,943	2,685	3,187	3,983	4,886
Other	-758	-256	-123	-123	-123
Non-controlling interests' equity	**3,802**	**3,949**	**3,984**	**4,088**	**4,202**
Total equity	**13,943**	**15,225**	**15,738**	**16,638**	**17,654**
Net debt	-3,384	-4,792	-4,836	-4,742	-4,212

Cash flow statement

Year-end Dec 31 (KRWb)	2024	2025	2026E	2027E	2028E
Cash flow from operations	**1,250**	**1,405**	**3,104**	**1,799**	**1,705**
Net profit	-162	518	544	945	1,061
Non-cash profit and expenses	1,462	1,014	751	914	996
Depreciation	576	583	560	602	652
Amortization	260	258	223	228	247
Other	627	174	-32	83	97
Changes in A/L from operating activities	-4	-106	1,777	54	-200
Cash flow from investments	**10**	**-478**	**-747**	**-1,161**	**-1,267**
Change in tangible assets	-348	-465	-545	-662	-717
Change in financial assets	164	-843	306	-303	-336
Other	194	830	-509	-196	-214
Cash flow from financing	**-521**	**-708**	**92**	**-34**	**-62**
Change in debt	-36	-404	1,173	211	190
Change in equity	71	-108	-158	0	0
Dividends	-43	-39	-33	-45	-45
Other	-513	-158	-890	-201	-208
Change in cash	781	204	1,474	-163	-654
Cash at beginning of year	5,389	6,170	6,374	7,847	7,684
Cash at end of year	6,170	6,374	7,847	7,684	7,030
Gross cash flow	**1,300**	**1,532**	**1,295**	**1,858**	**2,057**
Free cash flow	**871**	**926**	**2,555**	**1,137**	**988**

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

Financial ratios

Year-end Dec 31	2024	2025	2026E	2027E	2028E
Growth (%)					
Sales	4.1	3.0	4.4	9.7	8.3
Operating profit	7.5	47.8	41.9	18.0	8.9
Net profit	nm	nm	5.0	73.7	12.3
Adjusted EPS**	nm	nm	-24.6	89.5	9.8
Per-share data (KRW)					
EPS (parent-based)	124	1,110	984	1,897	2,139
EPS (consolidated)	-365	1,170	1,228	2,133	2,396
Adjusted EPS**	-193	1,527	1,152	2,183	2,396
BVPS	23,100	25,625	26,595	28,395	30,438
DPS (common)	68	75	101	101	101
Valuations (x)					
P/E***	n/a	39.4	34.3	18.1	16.5
P/B***	1.7	2.3	1.5	1.4	1.3
EV/EBITDA	13.0	16.4	9.1	8.2	7.8
Ratios (%)					
ROE	0.6	4.6	3.8	6.9	7.3
ROA	-0.6	1.9	1.8	2.9	3.0
ROIC	-22.5	16.0	23.5	31.1	31.3
Payout ratio	54.0	6.7	10.2	5.3	4.7
Dividend yield (common)	0.2	0.1	0.3	0.3	0.3
Net debt to equity	-24.3	-31.5	-30.7	-28.5	-23.9
Interest coverage (x)	2.4	4.1	5.4	6.1	6.4

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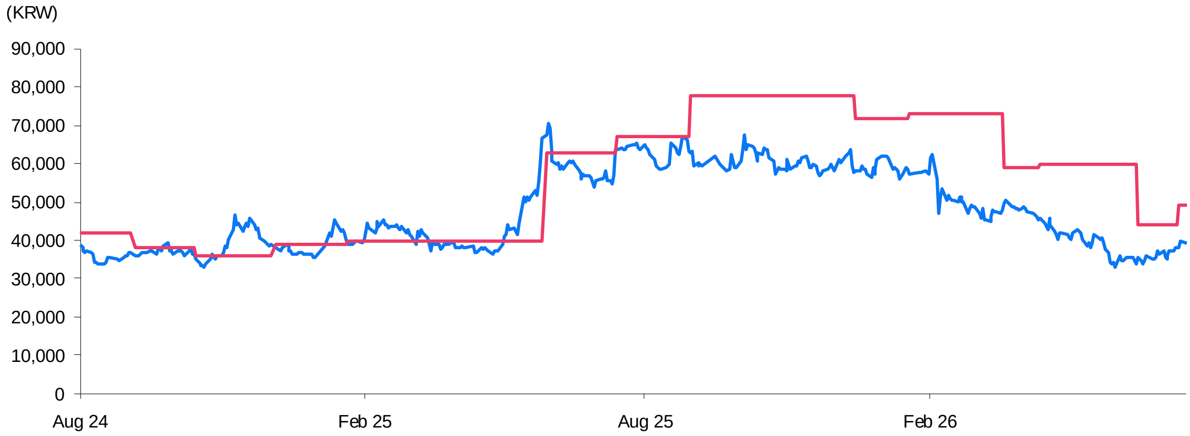
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2024/8/9	9/30	11/8	12/30	2025/2/14	6/23	8/8	9/24	2026/1/9	2/13	4/15	5/8
Recommendation	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY
Target price (KRW)	42000	38000	36000	39000	40000	63000	67000	78000	72000	73000	59000	60000
Gap* (average)	-13.99	-2.04	9.84	-0.25	5.22	-6.72	-6.11	-22.40	-17.97	-30.41	-18.29	-34.76
(max or min)**	-7.86	3.68	29.44	16.15	66.50	-14.13	0.00	-13.21	-13.61	-14.66	-14.24	-23.42

Date	7/10	8/6
Recommendation	BUY	BUY
Target price (KRW)	44000	49000
Gap* (average)	-17.99	
(max or min)**	-13.30	

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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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

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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 2026.06.30

BUY (85.5%)·HOLD (14.5%)·SELL (0%)

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