

S. Korea's top mobile chat app, online portal to merge (Update)

May 26 2014, by Jung Ha-Won



Lee Jae-Beom, CEO of Kakao Talk, poses for a photo at the company's office in Seoul, on July 13, 2011

South Korea's top messaging service provider, Kakao Corp., and its second largest Internet portal, Daum, announced a merger Monday to create one of the country's largest IT companies worth around \$3 billion.

Daum Communications, the operator of portal Daum.net, said the

merger with Kakao, which runs the hugely popular mobile chat app Kakao Talk, would be completed in October through share swaps.

The move was aimed at "enhancing core businesses and creating business synergy", Daum said in a regulatory filing.

It said the swap ratio had been set at one Daum share for 1.55 Kakao shares.

The newly merged company—named Daum Kakao—will benefit from Kakao's popularity on mobile platforms as well as Daum's business clout and experience with Internet searches and advertising sales, the two firms said in a joint statement.

The deal "will put us in a strong position to respond to fast-changing global market", Kakao chief executive Lee Seok-Woo told reporters.

Kakao Talk is used by more than 140 million people globally, including some 35 million South Koreans—more than 90 percent of the country's smartphone users.

"We thought organic growth took too long at a time when our overseas competitors overseas were expanding businesses rapidly," Lee said.

"So we reached the decision (for the merger) to offer our customers upgraded services at a faster speed," he added.

He did not elaborate on Daum Kakao's future business plans.

The merged company will be better positioned to compete with South Korea's dominant Internet portal Naver which operates Line, a messaging service and rival to Kakao Talk that is popular in Japan and Southeast Asia.

Naver's share price closed down 4.0 percent Monday on the merger news.

The new firm still faces a daunting task to compete globally against bigger rivals like China's WeChat that has more than 600 million users and WhatsApp, acquired by Facebook for \$19 billion earlier this year.

Kakao, founded in 2007, has not gone public yet but its shares are traded over the counter in Seoul and it has an estimated market value of two trillion won (1.9 billion).

The company's founder Kim Beom-Soo has a leading 30 percent stake and a venture company owned by Kim controls another 23.7 percent.

Chinese Internet giant Tencent, which operates WeChat, has a 13.3-percent stake.

The Shenzhen-based company approved the merger, Lee said, adding that Daum Kakao had no immediate plan to expand business in China.

Daum—founded in 1995—has some 30 million users and is valued at around one trillion won on Seoul's tech-heavy Kosdaq stock market.

The latest deal will make Kim the leading shareholder of the new firm with a personal stake of 22.23 percent, and allow a backdoor listing of Kakao shares on the Kosdaq.

"Daum can secure a new source of growth via Kakao's (mobile) platform and Kakao can use Daum's vast business resources to explore new businesses and overseas markets," said Hwang Seung-Taek, an analyst at Hana Daetoo Securities.

South Korea is one of the world's most wired countries, with 37 million

owning a smartphone out of a population of 50 million.

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