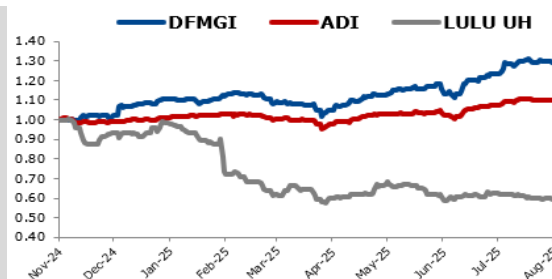


LuLu Retail Holding PLC

Strong e-commerce momentum and margin expansion supported profits

Current Price	Target Price	Upside/Downside (%)	Rating
AED 1.23	AED 2.00	+63%	BUY

- Added two retail stores with a total store count of 256 stores in 2Q25. Also added 9k square meter (SQM) of selling area with a total selling area of 1.35 Mn SQM.
- Revenue grew 4.6% YOY to USD 2,017 Mn in 2Q25, primarily supported by growth in LFL sales, strong e-commerce performance, robust demand for fresh food and electrical goods, private label contribution, and new store openings.
- EBITDA margin expanded 25 bps YOY to 10.1% in 2Q25, driven by expansion in gross margin and stable operating expenses.
- Introduced Quick Commerce for faster and more flexible delivery.
- Declared a 1H25 interim dividend of 3.5 fils per share, amounting to USD 98.4 Mn, representing 78% of net profit in 1H25.



Stock Information

Market Cap (AED, Mn)	12,704.55
Paid Up Capital (Mn)	143.42
52 Week High	2.06
52 Week Low	1.09
3M Avg. daily value (AED)	16,298,550

2Q25 Result Review (USD, Mn)

Total Assets	5,524
Total Liabilities	4,488
Total Equity	1,036
EBITDA	204
Net Profit	57

Financial Ratios

Dividend Yield (12m)	5.8
Dividend Pay-out (%)	33.86
Price-Earnings Ratio(x)	15.25
Price-to-Book Ratio (x)	3.34
Book Value (AED)	0.10
Return-on Equity (%)	23.38

Stock Performance

5 Days	0.00%
1 Months	-3.15%
3 Months	-9.56%
6 Months	-16.33%
1 Year	N/A
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-2.38%
Year to Date (YTD%)	-35.26%

2Q25 Net Profit lower than our estimate

Lulu Retail's ("Lulu" or the "Company") net profit rose 1.8% YOY to USD 57 Mn in 2Q25, lower than our estimate of USD 64 Mn. The increase in net profit was primarily driven by an increase in revenue, coupled with an expansion in gross margin, which outpaced costs, partially offset by higher finance costs and tax expenses.

P&L Highlights

Lulu Retail's revenue rose 4.6% YOY to USD 2,017 Mn in 2Q25, primarily supported by the growth in LFL sales and new store openings. The growth in private label and e-commerce sales also supported the revenue growth. Private label category sales rose 3.5% YOY and constituted 29.7% of retail revenue in 2Q25. The e-commerce sales surged 43.4% YOY to USD 108 Mn in 2Q25, supported by faster delivery and expanded reach. Fresh food category revenue grew 11.2% YOY in 2Q25, supported by sustained strong demand. Revenue from Electrical Goods grew 10.6% YOY in 2Q25, driven by promotional initiatives launched in 1Q25 to boost footfall. Lulu recorded strong growth in key markets, with revenue from the UAE increasing 9.4% YOY, supported by sustained demand for fresh food and enhanced through the company's omni-channel offerings. In KSA, revenue rose 3.8% YOY in 2Q25, driven by strong electrical goods sales and the contribution from new store openings. Similarly, Kuwait's revenue grew 4.9% YOY in 2Q25, while Qatar's revenue increased marginally 0.1% YOY, as growth in the fresh food segment was partly offset by weaker department store sales. Revenue from Oman declined marginally 1% YOY due to flat supermarket sales, driven by price declines despite higher volumes. The Company's cost of revenue rose 4.1% YOY to USD 1,549 Mn in 2Q25. Thus, gross profit increased 6.5% YOY to USD 468 Mn and gross profit margins expanded 40 bps YOY to 23.2% in 2Q25, supported by volume and

price growth as well as higher contribution from private label products. Other operating income declined 2.7% YOY to USD 80 Mn, whereas operating expenses grew 3.8% YOY to USD 441 Mn in 2Q25. Net finance cost expanded 20.9% YOY to USD 41 Mn in 2Q25 due to an increase in debt and lease liabilities. EBITDA rose 7.6% YOY to USD 204 Mn in 2Q25, whereas EBITDA margin increased 25 bps YOY to 10.1% in 2Q25, supported by expansion in gross margin and stable operating expenses. The Company's profit before tax rose 4.5% YOY to USD 66 Mn in 2Q25. Income tax expenses increased 27.2% YOY to USD 9 Mn in 2Q25.

Balance Sheet Highlights

Lulu's cash and cash equivalents declined from USD 487 Mn in 1Q25 to USD 377 Mn in 2Q25. The company's CAPEX declined from USD 58 Mn in 1H24 to USD 54 Mn in 1H25, driven by its shift toward a capital-light model. Free cash flow rose from USD 155 Mn in 2Q24 to USD 176 Mn in 2Q25 and the conversion ratio rose from 81.7% in 2Q24 to 86.2% in 2Q25, driven by steady EBITDA growth and further reinforced by disciplined capital management. The company's net debt decreased from USD 2,528 Mn in 2024 to USD 2,474 Mn in 2Q25, due to higher cash allocated toward working capital. However, lease liabilities rose from USD 1,900 Mn in 2024 to USD 1,929 Mn in 2Q25, driven by new store openings. Excluding lease liabilities, leverage stood at 1.1x in 1H25 compared to 1.3x in 2024.

Target Price and Rating

We maintain our BUY rating on LuLu with a revised target price of AED 2.00. LuLu net profit grew 1.8% YOY to USD 57 Mn in 2Q25, driven by higher revenue and expansion in gross margin, partially offset by a rise in finance costs and tax expenses. The Company's LFL sales increased 2.1% YOY in 2Q25, demonstrating sustained demand from its core customer base. Lulu added c. 5k daily shoppers, including 1 Mn loyalty program members on a QOQ basis, underscoring the strong appeal of its store network. Additionally, it generated sales of USD 37 Mn from the new stores in 2Q25, reflecting the successful execution of its expansion strategy. Furthermore, a continued growth and increased contribution from e-commerce sales, supported by improved delivery speed and broader coverage. Lulu Retail opened seven stores in 1H25 and committed to adding 20 stores by the end of 2025, enhancing its retail footprint and enabling greater customer reach. Additionally, the Company's performance is further highlighted by growth across key metrics, with average basket value, customer count, and sales per square meter rising in 1H25, supported by 690k daily shoppers choosing Lulu for its value-to-premium offerings. To further strengthen its store portfolio, Lulu Retail is focusing on revenue enhancement, cost optimization and improving operational efficiency. The Company expanded its digital platform categories by capturing a larger share of e-commerce to drive revenue growth. Additionally, the Company launched Quick Commerce for faster and more flexible delivery, and introduced the LOT store-in-store format to serve the growing value-conscious customer segment. LOT stores enhanced customer retention and value proposition, and addressed competitive pressure from discounters without significant capital outlay. On the cost front, the Company aims to enhance efficiency by optimizing store area, outsourcing non-essential functions to reduce costs and renegotiating leases with landlords to improve financial terms. To enhance productivity, the Company is focusing on improving operational efficiency by prioritizing higher-margin products, reallocation of non-performing category areas, and enhanced store layouts to improve customer engagement and sales. The Company's high-margin private label segment continues to drive profitability, with key initiatives focused on new product launches, enhanced in-store branding for greater visibility, and exclusive GCC-wide promotions to strengthen customer engagement and sales. Moreover, Lulu declared an interim dividend of 3.5 fils per share, totaling USD 98.4 Mn for 1H25, representing 78% of net profit. Given Lulu's strong execution, expanding footprint, and focus on operational efficiency, we maintain our BUY rating on the stock.

LuLu Retail - Relative valuation

(at CMP)	2024	2025F
PE (x)	13.66	13.77
PB (x)	3.43	3.21
EV/EBITDA	5.12	4.43
EPS	0.09	0.09
BVPS	0.35	0.38
DPS	0.03	0.07
Dividend yield (%)	2.5%	5.8%

FABS Estimates & Co Data

Note – LuLu Retail listed on ADX in 2024. Thus, the financial multiple for the prior period is unavailable

LuLu Retail – P&L

USD mn	2Q24	1Q25	2Q25A	2Q25F	VAR	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Revenue	1,928	2,080	2,017	2,068	-2.4%	4.6%	-3.0%	7,621	8,165	7.1%
Direct cost	-1,488	-1,616	-1,549	-1,613	-4.0%	4.1%	-4.1%	-5,856	-6,295	7.5%
Gross profit	440	465	468	455	3.0%	6.5%	0.9%	1,765	1,870	5.9%
Other operating income	82	80	80	79	1.3%	-2.7%	-0.8%	300	326	8.7%
Operating expenses	-425	-426	-441	-418	5.6%	3.8%	3.5%	-1,657	-1,738	4.9%
Finance cost, net	-34	-40	-41	-44	-7.4%	20.9%	2.5%	-169	-177	4.6%
EBITDA	190	214	204	210	-2.7%	7.6%	-4.8%	787	835	6.2%
Profit before tax	63	79	66	72	-7.9%	4.5%	-16.1%	239	281	17.7%
Income tax expense	-7	-9	-9	-8	8.9%	27.2%	-2.7%	-22	-34	51.1%
Profit from cont operat	56	70	57	64	-10.0%	1.8%	-17.8%	216	247	14.2%
Profit from disc. operat	0	0	0	0	NM	NM	NM	33	0	NM
Net Profit	56	70	57	64	-10.0%	1.8%	-17.8%	249	247	-0.9%

FABS estimate & Co Data

LuLu Retail - Margins

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Gross Profit	22.8%	22.3%	23.2%	40	89	23.2%	22.9%	-26
EBITDA	9.9%	10.3%	10.1%	25	-18	10.3%	10.2%	-10
Net Profit	2.9%	3.4%	2.8%	-8	-51	3.3%	3.0%	-24

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value Lulu Retail. We have assigned 70% weight to DCF, 15% to RV, and 15% to DDM.

Valuation Method	Target	Weight	Weighted Value
DCF Method	2.20	70.0%	1.54
DDM Method	1.36	15.0%	0.20
Relative Valuation (Average of PE & EV/EBITDA)	1.73	15.0%	0.26
Weighted Average Valuation (AED)			2.00
Current market price (AED)			1.23
Upside/Downside (%)			+63%

1) DCF Method:

Lulu Retail is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.6%. It is arrived at after using the cost of equity of 10.0% and the after-tax cost of debt of 5.0%. Equity cost is calculated using a 10-year government bond yield of 5.1%, a beta of 1.0 and an equity risk premium of 4.9%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	1,503
Terminal value (USD, Mn)	5,329
Cash/(Net Debt) (as of June 2025)	-644
FV to Common shareholders (USD, Mn)	6,188
No. of shares (Mn)	10,329
Current Market Price (AED)	1.23
Fair Value per share (AED)	2.20

DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	424	470	540	584	634
IFRS Rent	-346	-372	-379	-406	-396
Depreciation & Amortization	377	393	398	431	444
Capex	-136	-131	-116	-119	-125
Change in Working Capital	209	-28	-30	-28	-29
Free Cash Flow to Firm (FCFF)	265	332	413	462	528
Discounting Factor	0.90	0.83	0.77	0.71	0.65
Discounted FCFF	239	276	317	326	344

Source: FAB Securities

2) Relative Valuation:

We have used regional peers to value Lulu Retail, and it is valued using the average of EV/EBITDA and PE multiple. It is valued at an EV/EBITDA and PE multiple of 10.0x and 16.0x, respectively, in line with peers.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2025F	2026F	2025F	2026F
<u>Integrated & Marine peers</u>					
Abdullah Al Othaim Market	1,794	12.1	9.6	13.3	17.0
Savola	1,898	5.3	5.1	16.0	11.2
Bindawood Holding	1,727	10.0	9.3	23.3	20.6
Al Meera Consumer Goods	828	12.3	11.8	15.7	14.8
Spinneys	1,558	8.6	7.8	18.0	16.6
Average		9.7x	8.7x	17.3x	16.0x
Median		10.0x	9.3x	16.0x	16.6x
Max		12.1x	9.6x	18.0x	17.0x
Min		8.6x	7.8x	15.7x	14.8x

Source: FAB Securities

3) DDM Method:

Lulu Retail plans to maintain a dividend payout ratio of c. 75% of annual distributable profit after tax, paid semi-annually. The dividend is discounted at the cost of equity of 10.0%.

Sum of PV (USD, Mn)	997
Terminal value (USD, Mn)	2,822
FV to Common shareholders (USD, Mn)	3,819
No. of shares (Mn)	10,329
Current Market Price (AED)	1.23
Fair Value per share (AED)	1.36

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend Paid					
Dividend	193	224	284	320	367
Total Dividend	193	224	284	320	367
Discounting Factor	0.89	0.81	0.73	0.67	0.61
Present Value of Dividend	172	181	208	214	222

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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