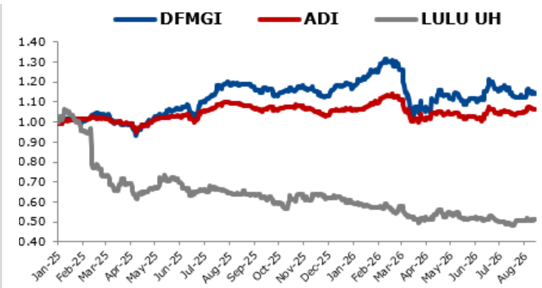
LuLu Retail Holding PLC

Lower non-food sales weighed on profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 0.982	AED 1.50	+53%	BUY

- Added six new stores in 2Q26, comprising five Mini Markets and one Express store, increasing the total store count to 283 and adding 2,997 sqm of retail space.
- Lulu's customer count increased by 5k during 2Q26 to c. 695k, reflecting continued traction across markets.
- The Company now expects full-year store openings to exceed the previously guided range of 18–20, driven by a higher mix of smaller-format stores.
- Lulu declared an interim dividend of 3 fils per share for 1H26, equivalent to c. USD 84 Mn and representing 95% of 1H26 net profit, above the Company's stated 75% payout policy.



Stock Information	
Market Cap (AED, Mn)	10,122.33
Paid Up Capital (Mn)	143.42
52 Week High	1.25
52 Week Low	0.91
3M Avg. daily value (AED)	7,918,128

2Q26 Result Review (USD, Mn)	
Total Assets	5,589
Total Liabilities	4,589
Total Equity	1,000
EBITDA	182
Net Profit	42

Financial Ratios	
Dividend Yield (12m)	7.13
Dividend Pay-out (%)	353.50
Price-Earnings Ratio(x)	16.57
Price-to-Book Ratio (x)	2.76
Book Value (AED)	0.10
Return-on Equity (%)	16.35

Stock Performance	
5 Days	0.82%
1 Months	4.37%
3 Months	0.10%
6 Months	-5.77%
1 Year	-20.97%
Month to Date (MTD%)	2.08%
Quarter to Date (QTD%)	2.62%
Year to Date (YTD%)	-14.04%

2Q26 Net Profit lower than our estimate

Lulu Retail's ("Lulu" or the "Company") net profit declined 26.5% YOY to USD 42 Mn in 2Q26, lower than our estimate of USD 45 Mn. The decline in net profit was primarily driven by lower revenue and other operating income, coupled with higher operating expenses, partially offset by lower cost of revenue, net finance cost and income tax expense.

P&L Highlights

Lulu Retail's revenue declined 2.3% YOY to USD 1,971 Mn in 2Q26, as growth in food sales was offset by lower non-food sales, particularly in discretionary categories, amid weaker consumer sentiment. Consumer Packaged Goods and Fresh Food delivered YOY growth, while Lifestyle and Electrical recorded a contraction during the quarter. Private label sales continued to gain share, with penetration reaching 30.7% of retail sales in 2Q26 from 29.7% in 2Q25, supported by customer substitution, with broad coverage across price tiers from value to premium and differentiated ranges across partnerships, wellness, community and sustainability. E-commerce business continued to scale strongly, now contributing 8.9% of retail sales, up 332 bps, with 53.0% YOY growth to USD 165 Mn in 2Q26, driven by ongoing omnichannel integration and improved customer adoption. Lulu's like-for-like (LFL) sales declined 5.9% YOY in 2Q26, reflecting weakness in discretionary demand and lower sales in non-food categories. Revenue from the UAE declined marginally by 0.7% YOY to USD 756 Mn in 2Q26, due to weakness in non-food categories, however supported by Food category performance. KSA revenue declined 11.3% YOY to USD 338 Mn in 2Q26, primarily reflecting weakness in non-food, particularly electricals, where pricing and price-mix changes impacted performance. In contrast, Kuwait revenue rose 2.4% YOY to USD 186 Mn in 2Q26, supported by solid

Consumer Packaged Goods (CPG) and Fresh Food demand. Meanwhile, Qatar’s revenue decreased 2.6% YOY to USD 270 Mn in 2Q26, with food growth offset by non-food performance. Revenue from Oman declined 1.5% YOY to USD 290 Mn in 2Q26, impacted by weaker non-food. Revenue from other countries increased by 8.2% YOY to USD 131 Mn in 2Q26, supported by external sales from the Company’s sourcing centres. The Company’s cost of revenue declined 2.0% YOY to USD 1,518 Mn in 2Q26. Thus, gross profit declined 3.3% YOY to USD 453 Mn in 2Q26, with gross margin contracting 24 bps YOY to 23.0% in 2Q26. Other operating income declined marginally by 0.7% YOY to USD 79 Mn in 2Q26. Operating expenses grew 1.2% YOY to USD 447 Mn in 2Q26, due to increase in depreciation, rent expenses and other expenses partially offset by decline in employee salaries and benefit and utilities expenses. Net finance cost declined 10.6% YOY to USD 37 Mn in 2Q26, primarily due to decline in interest on borrowings, bank charges and interest on employees defined benefit obligations partially offset by increase in interest on lease liabilities. EBITDA declined 10.8% YOY to USD 182 Mn in 2Q26, with EBITDA margin declining 88 bps YOY to 9.2% in 2Q26, primarily due to lower gross margin along with an increase in S&A expenses, partially offset by disciplined cost management. The Company’s income tax expense decreased 22.4% YOY to USD 7 Mn in 2Q26.

Balance Sheet Highlights

Lulu’s cash and cash equivalents decreased from USD 414 Mn in 1Q26 to USD 299 Mn in 2Q26. The Company’s capex stood at USD 26 Mn in 2Q26, equivalent to 1.3% of revenue, compared with USD 28 Mn, or 1.4% of revenue, in 2Q25, reflecting a renewed focus on a capital efficient expansion model and a balanced approach to maintenance and growth investments. Cash conversion stood at 85.9% in 2Q26, demonstrating resilience in underlying cash generation despite softer profitability. The Company’s net debt, excluding lease liabilities, increased from USD 409 Mn in 1Q26 to USD 508 Mn in 2Q26. However, lease liabilities decreased marginally from USD 2,088 Mn in 1Q26 to USD 2,051 Mn in 2Q26. Excluding lease liabilities, leverage stood at 1.2x in 2Q26.

Target Price and Rating

We maintain our BUY rating on LuLu Retail with a target price of AED 1.50. LuLu Retail reported a decline in net profit in 2Q26. Despite a challenging operating environment and weaker discretionary demand, the Company maintained profitability through disciplined cost management and continued network expansion. Six new stores were opened in 2Q26, comprising five Mini Markets and one Express store, adding c. 2,997 sqm of selling space and bringing the total network to 283 stores and total selling space to 1.41 Mn sqm as of June 2026. Given the increased mix of smaller-format stores, management now expects full-year store openings to exceed the previously guided range of 18–20, while total retail space added during the year is expected to remain broadly consistent with prior expectations. The Happiness loyalty membership reached 9.4 Mn, including 382k additions during the quarter, while customer count reached c. 695k in 2Q26, with 5k customers added during 2Q26, reflecting continued traction across markets. Loyalty-linked sales accounted for c. 70% of total sales, supporting more targeted and data-driven commercial execution. Private label penetration increased to 30.7% of retail sales in 2Q26 from 29.7% in 2Q25, supported by customer substitution and broader coverage across price tiers from value to premium and differentiated ranges across partnerships, wellness, community and sustainability. E-commerce remained a key growth driver, with sales increasing 53.0% YOY to USD 165 Mn and accounting for 8.9% of retail sales in 2Q26, driven by ongoing omnichannel integration and improved customer adoption. Continued investment in digital capabilities, including customer onboarding, fulfilment and post-order experience, alongside the single Happiness loyalty program, anchors the integrated customer experience. Near-term performance remains affected by weaker non-food demand, particularly across lifestyle and electrical categories, with management noting lower volumes in both categories and negative price-mix in electricals. The weakness was broadly consistent across geographies, while food performance remained resilient. The Company’s non-food strategy remains focused on driving growth across channels, enhancing assortment relevance and improving profitability through disciplined commercial execution, with priorities including digital and marketplace expansion, stronger supplier partnerships and product availability, refreshed fashion assortments, improved visual merchandising, and tighter inventory and promotional management to improve full-price sell-through, reduce ageing stock and enhance margins. While discretionary demand remains cautious, the Company expects improving consumer sentiment, seasonal trading events and ongoing commercial initiatives to support a gradual recovery in non-food revenue and profitability during 2H26. In KSA, where revenue declined 11.3% YOY in 2Q26, the Company highlighted that the situation in Saudi Arabia remains complex, with competition from legacy brick-and-mortar operators, discounters and aggressive new e-commerce entrants. Food performance remained broadly aligned with the Company's overall performance, while non-food performance was weaker due to the broader operating environment. Lulu is undertaking several measures in KSA, including refining product offerings based on customer data, space management, smart promotions, supply partnerships, inventory optimisation and central cost initiatives, which are expected to have a more meaningful impact in the coming months and quarters. Management remains confident in its strategy, with strong e-commerce growth supporting the long-term fundamentals. Local sourcing capabilities built ahead of the disruption provided a strong buffer against international freight constraints and helped maintain product availability across stores. The Company also continued to focus on disciplined cost and cash flow management, with close oversight of freight, commodity and import costs, alongside targeted pricing and assortment actions where appropriate, and ongoing business continuity monitoring across stores, distribution, sourcing and support functions. The Board declared an interim dividend of 3 fils per share for 1H26, equivalent to c. USD 84 Mn and representing 95% of 1H26 net profit, above the Company's stated 75% payout policy. The Company is also progressing the strategic acquisition of the Seychelles business from subsidiaries of Lulu International Holdings Limited (a related party) for USD 750 representing the purchase of shares at par value, with one store proposed in the high-income, import-dependent market. Thus, based on these factors, we maintain our BUY rating on the stock.

LuLu Retail - Relative valuation

(at CMP)	**2024**	**2025**	**2026F**
PE (x)	11.06	13.48	16.88
PB (x)	2.78	2.74	2.80
EV/EBITDA	4.30	4.21	4.49
BVPS	0.353	0.357	0.350
EPS	0.089	0.073	0.058
DPS	0.030	0.070	0.055
Dividend yield (%)	3.1%[1]	7.1%	5.6%

FABS Estimates & Co Data

Note: *LuLu Retail listed on ADX in 2024. Thus, the financial multiple for the prior period is unavailable. [1]Dividend yield for 2024 is based on the 3 fils per share the Company announced for 2H'24.*

LuLu Retail – P&L

USD mn	**2Q25**	**1Q26**	**2Q26**	**2Q26F**	**Var**	**YOY Ch**	**QOQ Ch**	**2025**	**2026F**	**YOY Ch**
Revenue	2,017	2,020	1,971	1,927	2.3%	-2.3%	-2.4%	7,934	7,842	-1.2%
Cost of revenue	-1,549	-1,571	-1,518	-1,494	1.7%	-2.0%	-3.3%	-6,111	-6,054	-0.9%
Gross profit	**468**	**449**	**453**	**434**	**4.5%**	**-3.3%**	**0.8%**	**1,823**	**1,788**	**-1.9%**
Other operating income	80	79	79	77	2.6%	-0.7%	0.4%	303	304	0.4%
Operating expenses	-441	-432	-447	-417	7.0%	1.2%	3.3%	-1,731	-1,748	1.0%
Finance cost, net	-41	-42	-37	-43	-14.0%	-10.6%	-13.3%	-162	-158	-2.6%
EBITDA	**204**	**192**	**182**	**190**	**-4.2%**	**-10.8%**	**-5.2%**	**782**	**735**	**-6.0%**
Profit before tax	**66**	**53**	**49**	**51**	**-4.0%**	**-26.0%**	**-8.8%**	**232**	**186**	**-20.0%**
Income tax expense	-9	-7	-7	-6	9.2%	-22.4%	-0.2%	-27	-22	-19.0%
Net Profit	**57**	**47**	**42**	**45**	**-5.8%**	**-26.5%**	**-10.0%**	**205**	**163**	**-20.2%**

FABS estimate & Co Data

LuLu Retail - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	YOY Ch
Gross Profit	23.2%	22.2%	23.0%	-24	74	23.0%	22.8%	-18
EBITDA	10.1%	9.5%	9.2%	-88	-27	9.9%	9.4%	-48
Net Profit	2.8%	2.3%	2.1%	-70	-18	2.6%	2.1%	-50

FABS estimate & Co Data

Key Developments:

- **17 June 2026**: Lulu Retail expanded its UAE network with a new Mini Market in Oud Al Muteena, Dubai, enhancing customer accessibility and supporting its broader GCC expansion strategy.

- **25 May 2026**: Lulu Retail opened four new Mini Market stores in Saudi Arabia, including locations at metro stations and fuel stations in Riyadh and Dammam, offering daily essentials, fresh food, ready-to-eat meals, snacks, bakery items and beverages, targeting commuters and urban consumers, thereby strengthening customer accessibility and supporting its ongoing GCC expansion strategy.

- **06 May 2026**: Lulu Retail opened a new c. 29,059 sq. ft. Express store at The Square Plaza in Abu Dhabi, offering fresh produce, grocery essentials, bakery products, ready-to-eat meals and household necessities, supporting customer accessibility.

- **09 March 2026**: Lulu Retail opened two new Express stores in Riyadh, KSA, and Dubai, UAE, spanning c.40,279 sq. ft. and c.19,872 sq. ft., respectively, offering fresh produce, grocery staples, bakery products, ready-to-consume meals and household essentials, supporting customer accessibility and its ongoing GCC expansion strategy.

- **19 February 2026:** Lulu Retail opened a new 11,636 sq. ft. Express store in the Hessah Al Mubarak District, Kuwait, offering fresh produce, grocery essentials, bakery products, ready-to-eat options and household items.

- **12 February 2026:** Lulu Retail opened two new Express stores in Ras Al Khaimah, UAE, and Muscat, Oman, spanning c.19,228 sq. ft. and c.36,589 sq. ft., respectively.

- **07 February 2026:** Lulu Retail opened a new c.48,243 sq. ft. Express store in Kalba, Sharjah, UAE, supporting customer accessibility and its ongoing GCC expansion strategy.

- **06 February 2026:** Lulu Retail opened a new c.16,566 sq. ft. Express store in Saadiyat, Abu Dhabi, UAE, offering fresh produce, groceries, bakery products, ready-to-eat meals and household essentials.

- **29 January 2026:** Lulu Retail opened a new c.17,182 sq. ft. Express store in Al Ain, UAE, supporting customer accessibility and its ongoing GCC expansion strategy.

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	1.55	70.0%	1.08
DDM Method	1.23	15.0%	0.18
Relative Valuation (Average of PE & EV/EBITDA)	1.54	15.0%	0.23
Weighted Average Valuation (AED)			**1.50**
Current market price (AED)			0.982
Upside/Downside (%)			+53%

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 8.8%. It is arrived at after using the cost of equity of 9.1% and the after-tax cost of debt of 5.0%. Equity cost is calculated using a 10-year government bond yield of 5.2%, a beta of 0.9 and an equity risk premium of 4.3%. 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)	1,117
Terminal value (USD, Mn)	3,741
Cash/(Net Debt) (as of June 2026)	-508
FV to Common shareholders (USD, Mn)	**4,350**
No. of shares (Mn)	10,329
Current Market Price (AED)	0.982
Fair Value per share (AED)	**1.55**

DCF Method

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
NOPAT	321	381	403	404	417
IFRS Rent	-347	-351	-354	-358	-363
Depreciation & Amortization	391	391	390	400	400
Capex	-118	-115	-118	-117	-120
Change in Working Capital	12	-20	-17	-13	24
Free Cash Flow to Firm (FCFF)	**260**	**286**	**304**	**316**	**358**
Discounting Factor	*0.97*	*0.89*	*0.82*	*0.75*	*0.69*
Discounted FCFF	**126[1]**	**255**	**249**	**238**	**248**

Source: FAB Securities,[1]Adjusted for partial year

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 a 2026 EV/EBITDA and PE multiple of 8.4x and 18.1x, respectively, in line with peers.

Company	Market	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
Integrated & Marine peers					
Abdullah Al Othaim Market	1,163	9.8	8.5	19.5	16.0
Savola	2,071	5.8	5.6	11.2	10.7
Bindawood Holding	1,376	8.4	8.0	19.9	18.6
Al Meera Consumer Goods	770	11.3	10.5	18.1	16.5
Spinneys	1,284	6.6	5.9	14.4	12.9
Average		**8.4x**	**7.7x**	**16.6x**	**15.0x**
Median		**8.4x**	**8.0x**	**18.1x**	**16.0x**
Max		**9.8x**	**8.5x**	**19.5x**	**16.5x**
Min		**6.6x**	**5.9x**	**14.4x**	**12.9x**

Source: FAB Securities

3) DDM Method:

Lulu Retail declared a dividend payout ratio of 95% of 1H26 distributable profit after tax. Going forward, we expect to maintain a similar payout ratio in the forecasted period. The dividend is discounted at the cost of equity of 9.1%.

Sum of PV (USD, Mn)	905
Terminal value (USD, Mn)	2,557
FV to Common shareholders (USD, Mn)	**3,462**
No. of shares (Mn)	10,329
Current Market Price (AED)	0.982
Fair Value per share (AED)	**1.23**

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2028E	FY 2029E
Dividend Paid					
Dividend	155	220	244	246	259
Total Dividend	**155**	**220**	**244**	**246**	**259**
Discounting Factor	*0.97*	*0.89*	*0.81*	*0.75*	*0.68*
Present Value of Dividend	**150**	**196**	**199**	**183**	**177**

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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