First Look Note | 3Q26

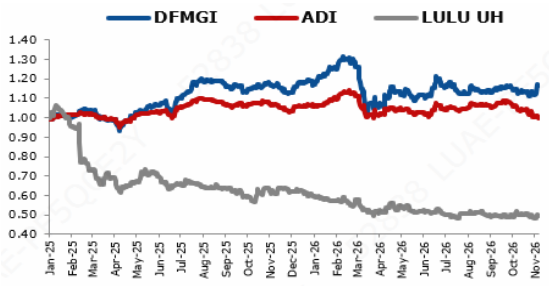
UAE Equity Research | Sector: Consumer Staples | Market: ADX

LuLu Retail Holding PLC

Higher input costs weigh on profitability despite revenue recovery

Current Price	Target Price	Upside/Downside (%)	Rating
AED 0.97	AED 1.30	+34.0%	BUY

- Added five new stores in 3Q26, comprising two Hypermarkets, two Express stores and one Mini Market, increasing the total store count to 288 and adding 18,776 sqm of retail space.
- Happiness loyalty membership increased by nearly 590k during 3Q26 to 10.0 Mn, with loyalty-linked sales accounting for c. 70% of retail sales.
- Year-to-date store openings reached 22, exceeding the previously guided full-year range of 18–20, while the Company has identified a pipeline of c. 50 new stores over 2027–2029.
- Lulu paid an interim dividend of 3 fils per share for 1H26, equivalent to c. USD 84 Mn, and reaffirmed the commitment to the 75% dividend payout policy, paid semi-annually.



Stock Information	
Market Cap (AED, Mn)	10,019.04
Paid Up Capital (Mn)	143.42
52 Week High	1.23
52 Week Low	0.91
3M Avg. daily value (AED)	6,007,638

3Q26 Result Review (USD, Mn)	
Total Assets	5,706
Total Liabilities	4,756
Total Equity	951
EBITDA	175
Net Profit	29

Financial Ratios	
Dividend Yield (12m)	6.70
Dividend Pay-out (%)	353.50
Price-Earnings Ratio(x)	17.14
Price-to-Book Ratio (x)	2.87
Book Value (AED)	0.09
Return-on Equity (%)	16.61

Stock Performance	
5 Days	1.89%
1 Months	1.04%
3 Months	-0.41%
6 Months	-2.51%
1 Year	-19.17%
Month to Date (MTD%)	4.98%
Quarter to Date (QTD%)	1.25%
Year to Date (YTD%)	-14.91%

3Q26 Net Profit lower than our estimate

Lulu Retail's ("Lulu" or the "Company") net profit declined 19.1% YOY to USD 29 Mn in 3Q26, lower than our estimate of USD 37 Mn. The decline in net profit was primarily driven by higher cost of revenue and operating expenses, coupled with higher income tax expense, partially offset by higher revenue and other operating income, coupled with lower net finance cost.

P&L Highlights

Lulu Retail's revenue increased 2.0% YOY to USD 1,935 Mn in 3Q26, supported by new store openings, continued e-commerce growth and higher wholesale sales, partially offset by a 1.9% YOY decline in like-for-like (LFL) sales. Food sales grew YOY in every month of the quarter, while non-food sales continued to be impacted by weak consumer sentiment, although non-food trends improved compared with 2Q26. New store openings contributed USD 43 Mn to revenue in 3Q26, while wholesale and other channels contributed USD 32 Mn, more than offsetting the USD 36 Mn impact from lower LFL sales. Private label sales remained resilient, with penetration at 30.2% of retail sales in 3Q26. E-commerce business continued to scale strongly, now contributing 9.7% of retail sales, up 335 bps YOY, with 53.1% YOY growth to USD 177 Mn in 3Q26, led by Lulu's own digital platform, where sales more than doubled YOY. Revenue from the UAE increased 4.9% YOY to USD 729 Mn in 3Q26, supported by strong performance in CPG and Fresh Food, a slight increase in customer transactions and positive LFL growth. KSA revenue declined 6.6% YOY to USD 342 Mn in 3Q26, primarily reflecting weakness in non-food, where changes in product mix impacted average selling prices, although the pace of decline moderated compared with 2Q26. In contrast, Kuwait revenue rose 9.9% YOY to USD 188 Mn in 3Q26, supported by solid CPG and Fresh Food demand, along with contributions from new stores. Meanwhile, Qatar's revenue decreased 2.3% YOY to USD 252 Mn in

3Q26, as food growth was offset by weaker non-food performance. Revenue from Oman increased 1.2% YOY to USD 291 Mn in 3Q26, driven by healthy performance in CPG and Fresh Food. Revenue from other countries increased 12.4% YOY to USD 133 Mn in 3Q26, supported by higher external sales from the Company's sourcing centres. The Company's cost of revenue increased 3.1% YOY to USD 1,492 Mn in 3Q26. Thus, gross profit declined 1.2% YOY to USD 444 Mn in 3Q26, with gross margin contracting 75 bps YOY to 22.9% in 3Q26, primarily reflecting higher input costs and limited pricing pass-through. Other operating income increased 4.3% YOY to USD 77 Mn in 3Q26. Operating expenses grew 1.2% YOY to USD 446 Mn in 3Q26, mainly due to an increase in rent, selling and depreciation expenses associated with new store openings and e-commerce growth, partially offset by a decline in employee salaries and benefits and utilities expenses. Net finance cost declined 3.6% YOY to USD 41 Mn in 3Q26, primarily due to a decline in interest on borrowings, bank charges and interest on employees defined benefit obligations, partially offset by an increase in interest on lease liabilities and lower interest income. Reported EBITDA declined 2.8% YOY to USD 175 Mn in 3Q26, with EBITDA margin declining to 9.1% in 3Q26 from 9.5% in 3Q25, primarily due to lower gross margin along with additional staff and rental costs associated with new store openings and higher aggregator commissions, partially offset by ongoing cost optimisation initiatives. The Company's income tax expense increased 22.5% YOY to USD 5 Mn in 3Q26.

Balance Sheet Highlights

Lulu's cash and cash equivalents decreased from USD 299 Mn in 2Q26 to USD 285 Mn in 3Q26. The Company's capex stood at USD 27 Mn in 3Q26, equivalent to 1.4% of revenue, compared with USD 29 Mn, or 1.5% of revenue, in 3Q25, comprising c. USD 18 Mn of growth capex and USD 8 Mn of maintenance capex. Free cash flow stood at USD 149 Mn in 3Q26, broadly in line with USD 151 Mn in 3Q25, while cash conversion improved to 84.9% in 3Q26 from 84.0% in 3Q25. The Company's net debt, excluding lease liabilities, increased from USD 508 Mn in 2Q26 to USD 675 Mn in 3Q26. Lease liabilities also increased from USD 2,051 Mn in 2Q26 to USD 2,096 Mn in 3Q26. Consequently, leverage excluding lease liabilities rose to 1.7x in 3Q26 from 1.2x in 2Q26, while leverage on an IFRS 16 basis stood at 3.8x.

Target Price and Rating

We maintain our BUY rating on Lulu Retail with a revised target price of AED 1.30. Lulu Retail returned to revenue growth in 3Q26, with revenue increasing 2.0% YOY to USD 1.9 Bn, although net profit declined 19.1% YOY to USD 29 Mn as higher input costs and limited pricing pass-through weighed on gross margin. Despite a challenging operating environment and weaker discretionary demand, the Company maintained profitability through disciplined cost management and continued network expansion. Five new stores were opened in 3Q26, comprising two Hypermarkets, two Express stores and one Mini Market, adding 18,776 sqm of selling space and bringing the total network to 288 stores and total selling space to 1.427 Mn sqm as of September 2026. Year-to-date openings reached 22 stores, exceeding the previously guided full-year range of 18–20. Looking ahead, the Company has identified a pipeline of c. 50 new stores over 2027–2029, weighted towards the earlier years, with roughly one-third each in the UAE, KSA and the other GCC markets, and c. 75% in the Express and Mini Market formats, with new stores typically ramping up over 12–18 months. The Happiness loyalty membership reached 10.0 Mn, including nearly 590k additions during the quarter, with loyalty-linked sales accounting for c. 70% of retail sales. Private label sales remained resilient at USD 551 Mn, with penetration of 30.2% of retail sales in 3Q26. E-commerce remained a key growth driver, with sales increasing 53.1% YOY to USD 177 Mn and accounting for 9.7% of retail sales in 3Q26, led by the Company's own platform, where sales more than doubled YOY. The Company noted that online gross margins are broadly similar to stores, with the own platform positioned on 60–90-minute delivery rather than quick commerce and expects own-platform margins to improve as scale builds. The Company also continued to enhance digital capabilities through the re-engineered app and AI-driven search and recommendations and launched Lulu Money remittance services. Food sales grew YOY in every month of 3Q26, while non-food trends improved compared with 2Q26, although LFL sales still declined 1.9% YOY. The Company highlighted that LFL sales grew consistently by 2–3% over the last two full years, that food LFL was positive in 3Q26, and expects overall LFL to turn positive as trading conditions continue to normalise. In KSA, revenue declined 6.6% YOY in 3Q26, moderating from an 11.3% decline in 2Q26, while segment adjusted EBITDA rose 40.7% YOY to USD 14 Mn, supported by cost optimisation measures, including c. USD 8 Mn of staff cost savings from a store-level headcount reorganisation. The

Company is assessing the impact of the new minimum wage regulation in KSA but remains confident of absorbing it through ongoing cost optimisation and expects KSA margins to move towards the Company average over the medium term as new stores mature. On gross margin, the Company expects the externally driven cost pressures to reverse in the coming months and quarters, while greater use of private label and direct imports, pricing initiatives, more effective promotions and improved commercial terms should support a recovery and expansion of gross margin over the longer term. The Company also continued to strengthen operational resilience through diversified sourcing, strategic inventory buffers in essential categories and active monitoring of landed costs, while pursuing additional revenue opportunities from data monetisation and retail media. Free cash flow stood at USD 149 Mn in 3Q26, with cash conversion improving to 84.9%, although net debt-to-EBITDA rose to 3.8x on an IFRS 16 basis and 1.7x excluding leases, reflecting the strategic inventory build and dividend payment. The Company paid an interim dividend of 3 fils per share for 1H26, equivalent to c. USD 84 Mn, and reaffirmed its commitment to the 75% dividend payout policy, paid semi-annually. Thus, based on these factors, we maintain our BUY rating on the stock.

LuLu Retail - Relative valuation

(at CMP)	2024	2025	2026F
PE (x)	10.95	13.34	16.76
PB (x)	2.75	2.72	2.77
EV/EBITDA	4.27	4.17	4.63
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]	7.2%	5.7%

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	3Q25	2Q26	3Q26	3Q26F	Var.	YOY Ch	QOQ Ch	2025	2026F	YOY Ch
Revenue	1,896	1,971	1,935	1,913	1.1%	2.0%	-1.8%	7,934	7,972	0.5%
Cost of revenue	-1,447	-1,518	-1,492	-1,468	1.6%	3.1%	-1.8%	-6,111	-6,154	0.7%
Gross profit	**449**	**453**	**444**	**446**	**-0.5%**	**-1.2%**	**-2.1%**	**1,823**	**1,818**	**-0.3%**
Other operating income	73	79	77	77	-1.1%	4.3%	-3.1%	303	312	3.2%
Operating expenses	-440	-447	-446	-442	0.8%	1.2%	-0.2%	-1,731	-1,787	3.2%
Finance cost, net	-42	-37	-41	-39	2.7%	-3.6%	10.5%	-162	-158	-2.6%
EBITDA	**180**	**182**	**175**	**179**	**-2.2%**	**-2.8%**	**-3.8%**	**782**	**735**	**-6.0%**
Profit before tax	**40**	**49**	**34**	**42**	**-18.8%**	**-14.9%**	**-30.3%**	**232**	**185**	**-20.3%**
Income tax expense	-4	-7	-5	-5	-2.9%	22.5%	-26.7%	-27	-22	-19.3%
Net Profit	**36**	**42**	**29**	**37**	**-21.0%**	**-19.1%**	**-30.9%**	**205**	**163**	**-20.4%**

FABS estimate & Co Data

LuLu Retail - Margins

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	YOY Ch
Gross Profit	23.7%	23.0%	22.9%	-75	-6	23.0%	22.8%	-18
EBITDA	9.5%	9.2%	9.0%	-45	-19	9.9%	9.2%	-64
Net Profit	1.9%	2.1%	1.5%	-39	-63	2.6%	2.0%	-54

FABS estimate & Co Data

Key Developments:

- **30 September 2026**: Lulu opened a new LuLu Xpress store at Kalba Waterfront Mall in Sharjah, taking its UAE store count to 128. The Company reiterated its target of reaching 150 stores by year-end, as it continues to expand its presence through multiple retail formats across the UAE.

- **31 August 2026**: Lulu opened its largest hypermarket in Madinah, marking its second store in the city and 79th in Saudi Arabia. Spanning approximately 95,648 sq. ft. across two floors.

- **12 August 2026**: Lulu opened a new hypermarket at Jaber Mall in Jaber Al-Ahmad, Kuwait, spanning over 8,500 sqm and taking its total store count in the country to 19. The Company plans to launch five additional projects over the next eight months and develop its largest logistics centre in Kuwait at Al Shadadiya.

- **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	1.26	70.0%	0.88
DDM Method	1.19	15.0%	0.18
Relative Valuation (Average of PE & EV/EBITDA)	1.58	15.0%	0.24
Weighted Average Valuation (AED)			**1.30**
Current market price (AED)			0.97
Upside/Downside (%)			+34%

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 8.9%. It is arrived at after using the cost of equity of 9.3% and the after-tax cost of debt of 4.3%. Equity cost is calculated using a 10-year government bond yield of 5.5%, 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)	1,197
Terminal value (USD, Mn)	3,030
Cash/(Net Debt) (as of Sept. 3Q26)	-675
FV to Common shareholders (USD, Mn)	**4,227**
No. of shares (Mn)	10,329
Current Market Price (AED)	0.97
Fair Value per share (AED)	**1.26**

DCF Method

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
NOPAT	321	343	368	376	407	424
IFRS Rent	-347	-352	-354	-356	-360	-364
Depreciation & Amortization	392	392	390	398	397	397
Capex	-120	-113	-115	-114	-117	-120
Change in Working Capital	-87	1	-4	-10	23	-20
Free Cash Flow to Firm (FCFF)	**158**	**270**	**284**	**293**	**351**	**317**
Discounting Factor	0.99	0.91	0.83	0.77	0.70	0.65
Discounted FCFF	**39[1]**	**245**	**237**	**225**	**247**	**204**

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 median of EV/EBITDA and PE multiple of 2027. It is valued at an EV/EBITDA and P/E multiple of 8.1x and 17.6x, respectively, in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
Integrated & Marine peers					
Abdullah Al Othaim Market	933	12.0	9.4	55.9	17.6
Savola	1,881	5.3	5.3	10.1	10.0
Bindawood Holding	1,392	8.7	8.1	18.9	18.9
Al Meera Consumer Goods	728	13.6	12.0	24.5	21.2
Spinneys	1,196	5.9	5.4	12.4	11.2
Average		**9.1x**	**8.0x**	**24.4x**	**15.8x**
Median		**8.7x**	**8.1x**	**18.9x**	**17.6x**
Max		**12.0x**	**9.4x**	**24.5x**	**18.9x**
Min		**5.9x**	**5.4x**	**12.4x**	**11.2x**

Source: FAB Securities

3) DDM Method:

Lulu Retail distributed dividend with a 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 9.3%.

Sum of PV (USD, Mn)	998
Terminal value (USD, Mn)	2,341
FV to Common shareholders (USD, Mn)	**3,340**
No. of shares (Mn)	10,329
Current Market Price (AED)	0.97
Fair Value per share (AED)	**1.19**

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Dividend Paid						
Dividend	155	183	210	219	250	266
Total Dividend	**155**	**183**	**210**	**219**	**250**	**266**
Discounting Factor	0.99	0.90	0.83	0.76	0.69	0.63
Present Value of Dividend	**153**	**166**	**174**	**165**	**173**	**168**

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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