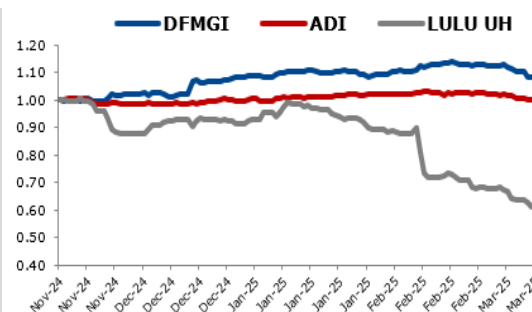


Lulu Retail Holding

Higher finance costs and modest topline growth impacted profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 1.25	AED 2.25	+80%	BUY

- Lulu's revenue grew 1.8% YOY to USD 1,894 Mn in 4Q24, attributed to stable growth across all regions except Kuwait. It added nine stores in 4Q24, and LFL sales declined 0.9% YOY in 4Q24.
- Gross and EBITDA margins remained flat at 23.4% and 11.6% in 4Q24 compared to 4Q23.
- Sales of high margin private label product category rose 13.5% YOY in 4Q24 and comprises 29.6% of total sales in 2024.
- Happiness Loyalty Program gained strong traction with 5.5 Mn members as of 4Q24.
- The Company proposed a dividend of USD 84.2 Mn, equivalent to 3 fils per share in 2024.



Stock Information

Market Cap (AED, Mn)	14,357.18
Paid Up Capital (Mn)	143.43
52 Week High	2.06
52 Week Low	1.23
3M Avg. daily value (AED)	31,287,930

4Q24 Result Review (USD, Mn)

Total Assets	5,451
Total Liabilities	4,458
Total Equity	993
EBITDA	219
Net Profit	65

Financial Ratios

Dividend Yield (12m)	2.40
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	14.45
Price-to-Book Ratio (x)	3.84
Book Value (AED)	0.09
Return-on Equity (%)	26.17

Stock Performance

5 Days	-6.62%
1 Months	-15.33%
3 Months	-33.16%
6 Months	-
1 Year	-
Month to Date (MTD%)	-8.63%
Quarter to Date (QTD%)	-33.16%
Year to Date (YTD%)	-33.16%

4Q24 Net Profit lower than our estimate

Lulu Retail's ("Lulu" or the "Company") net profit from continuing operations declined 38.1% YOY to USD 65 Mn in 4Q24, lower than our estimates of USD 95 Mn. The decline in profitability is primarily attributed to slow topline growth and higher finance cost owing to higher working capital debt. Net profit from continuing operations after excluding the one-time gain of USD 31 Mn from lease modifications in 4Q23 fell 12% YOY in 4Q24.

P&L Highlights

Lulu Retail's revenue rose 1.8% YOY to USD 1,894 Mn in 4Q24, driven by strong performance in Oman with stable growth across high-growth markets such as the UAE and Saudi Arabia and broad-based expansion across key product categories. Revenue from Oman increased 4.0% YOY to USD 290 Mn in 4Q24, driven by strong festive season sales and ongoing expansion in the fresh food segment. Additionally, revenue from UAE market boosted 2.7% YOY to USD 682 Mn in 4Q24, attributed to the launched of four new stores in the region. Furthermore, revenue from KSA grew 2.1% YOY to USD 370 Mn in 4Q24, supported by an enhanced fresh food offering, to the growing demand for fresh products in the Kingdom. Whereas, revenue from the other market like Qatar increased 1.2% YOY to USD 282 Mn, driven by year-end promotional sales. On the other hand, Kuwait revenue fell 4.2% YOY to USD 159 Mn in 4Q24, impacted by weaker department store sales. In terms of product mix across categories, the Fresh Foods segment grew 4.7% YOY in 4Q24. Additionally, electrical goods experienced strong demand, especially in mobile phones, supported by year-end promotional campaigns. Furthermore, Lulu's high-margin Private Label products sales expanded 13.5% YOY in 4Q24, coupled with Private Label penetration increased significantly from 27.6% in 4Q23 to 30.8% in 4Q24. In omni-channel expansion,

Lulu experienced 40.9% YOY growth in E-Commerce sales in 4Q24, driven by partnerships with Amazon and Talabat along with ongoing investments in its own platform. However, LFL sales declined 0.9% YOY in 4Q24, against 0.3% growth in 4Q23, due to lower sales in the Saudi Arabia, Oman, and Kuwait markets. The Company's cost of revenue rose 1.7% YOY to USD 1,451 Mn in 4Q24. As a result, gross profit increased 1.9% YOY to USD 443 Mn in 4Q24, while gross margin remained stable at 23.4% in 4Q24. Other operating income declined 24.3% YOY to USD 75 in 4Q24, primarily due to the absence of lease modification during the quarter. Operating expenses rose marginally 0.8% YOY to USD 395 in 4Q24. Lulu's finance cost surged substantially 79.3% YOY to USD 53 Mn in 4Q24, due to higher working capital debt. Thus, EBITDA grew marginally 0.6% YOY to USD 219 Mn in 4Q24, and EBITDA margin fell 14 bps YOY to 11.6% in 4Q24. Income tax expenses declined 27.1% YOY to USD 6 Mn in 4Q24 due to a decline in profit before tax.

Balance Sheet Highlights

Lulu's total capex totaled USD 136.7 Mn in FY2024, equivalent to 1.8% of total revenue. The company is gradually transitioning to an asset-light business model. The Company generated a free cash flow of USD 181 Mn in 4Q24 compared to USD 173 Mn in 4Q23, leading to a free cash flow conversion ratio of 82.6% and 78.4%, respectively, in 4Q24 and 4Q23. Total debt remained flat at USD 2.5 Bn in FY2024 compared to 9M24. Net debt to EBITDA remained flat at 3.2x on an IFRS-16 basis in FY2024.

Target Price and Rating

We maintain our BUY rating on Lulu with a revised target price of AED 2.25. The Company failed to meet its revenue guidance for FY2024 provided during the IPO. It seems Lulu sacrificed topline growth to maintain profitability margins. The Company recorded softer sales across some of the countries due to the lower performance in some of the markets and the opening of the stores at the end of the year. Despite soft sales growth in FY2024, the Company maintained its guidance for FY2025 and the medium term. Lulu's expectation to meet the guidance will hinge on the addition of 20 new stores in FY2025, benefit from the maturing of stores opened in FY2024 and strong expansion of loyalty members from 1.1 Mn in FY2023 to 5.5 Mn in FY2024. These members are linked to c. 65% of sales. We believe the sales growth will also be driven by a modest growth in LFL, improved product mix and launch of new products, which will drive footfall in the stores. The Company managed to maintain both gross and EBITDA margins in FY2024 and expects to improve owing to growth in the share of private label products. The share of private label products as a percentage of total sales rose 110 bps YOY to 29.6% in FY2024. In addition, Lulu's free cash flow is expected to benefit from transitioning to an asset-light business model, which will lead to lower capital expenditure. The CapEx as a percentage of sales declined from 2.1% in FY2023 to 1.8% in FY2024. It generated a cash flow of USD 650, with a cash conversion ratio of 82.6% in FY2024 compared to 80.2% in FY2023. The Company proposed a dividend of 0.82 cents (3 fils) per share, equivalent to USD 84.4 Mn in FY2024, which represented 85% of the semi-annual distributable profit after tax from continuing operations. Furthermore, the company aims to maintain a 75% annual dividend payout ratio. Based on the above factors, we maintain our BUY rating on the stock.

Lulu Retail - Relative valuation

(at CMP)	2024	2025F
PE (x)	14.45	14.32
PB (x)	3.63	3.31
EV/EBITDA	5.38	4.85
Dividend yield (%)	2.4%	5.2%

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 mm	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Revenue	1,861	1,859	1,894	2,231	-15.1%	1.8%	1.9%	7,278	7,621	4.7%
Direct cost	-1,426	-1,424	-1,451	-1,718	-15.5%	1.7%	1.9%	-5,603	-5,856	4.5%
Gross profit	435	435	443	513	-13.7%	1.9%	1.7%	1,675	1,765	5.4%
Other operating income	99	76	75	55	36.2%	-24.3%	-0.6%	273	300	9.8%
Operating expenses	-392	-430	-395	-416	-5.1%	0.8%	-8.2%	-1,580	-1,657	4.8%
Finance cost, net	-29	-41	-53	-37	42.4%	79.3%	29.3%	-153	-169	10.4%
EBITDA	218	176	219	253	-13.4%	0.6%	24.5%	753	786	4.4%
Profit before tax	113	40	71	115	-38.6%	-37.3%	76.2%	215	239	11.1%
Income tax expense	-8	-5	-6	-21	-70.4%	-27.1%	20.2%	-23	-22	-1.6%
Profit from cont. operat	105	35	65	95	-31.7%	-38.1%	84.4%	192	216	12.6%
Profit from disc. operat	46	0	0	0	NM	NM	NM	30	33	10.7%
Net Profit	150	35	65	95	-31.7%	-56.9%	84.4%	222	249	12.4%

FABS estimate & Co Data

Lulu Retail - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	YOY Ch
Gross margin	23.4%	23.4%	23.4%	3	-3	23.0%	23.2%	14
EBITDA margin	11.7%	9.5%	11.6%	-14	210	10.4%	10.3%	-3
Net profit margin	8.1%	1.9%	3.4%	-465	153	3.0%	3.3%	22

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	2.47	70.0%	1.73
DDM Method	1.47	15.0%	0.22
Relative Valuation (Average of PE & EV/EBITDA)	1.98	15.0%	0.30
Weighted Average Valuation (AED)			2.25
Current market price (AED)			1.25
Upside/Downside (%)			+80%

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 10.0% and the after-tax cost of debt of 5.8%. Equity cost is calculated using a 10-year government bond yield of 5.2%, a beta of 1.0 and an equity risk premium of 4.8%. 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)	1,735
Terminal value (USD, Mn)	5,850
Cash/(Net Debt) (as of December 2024)	-628
FV to Common shareholders (USD, Mn)	6,957
No. of shares (Mn)	10,329
Current Market Price (AED)	1.25
Fair Value per share (AED)	2.47

DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	429	483	561	617	675
IFRS Rent	-345	-369	-376	-403	-394
Depreciation & Amortization	376	391	396	428	439
Capex	-134	-130	-115	-99	-105
Change in Working Capital	27	-28	-29	-30	-31
Free Cash Flow to Firm (FCFF)	353	348	437	513	584
Discounting Factor	0.93	0.86	0.79	0.73	0.67
Discounted FCFF	330	299	345	372	390

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 EV/EBITDA and PE multiple of 10.5x and 18.9x, respectively, in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Integrated & Marine peers					
Abdullah Al Othaim Market	2,352	12.1	10.7	20.6	18.6
Savola	2,663	4.9	5.1	16.0	9.9
Bindawood Holding	1,950	10.5	9.5	23.8	20.5
Al Meera Consumer Goods	811	11.2	NA	15.1	NA
Spinneys	1,569	9.0	8.2	18.9	17.2
Average		9.5x	8.4x	18.9x	16.6x
Median		10.5x	8.9x	18.9x	17.9x
Max		11.2x	9.8x	20.6x	19.1x
Min		9.0x	7.4x	16.0x	15.3x

Source: FAB Securities

3) DDM Method:

Lulu Retail plans to pay USD 84.4 Mn dividend in 2024 and expects to maintain a dividend payout ratio of 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)	1,052
Terminal value (USD, Mn)	3,084
FV to Common shareholders (USD, Mn)	4,136
No. of share (Mn)	10,329
Current Market Price (AED)	1.30
Fair Value per share (AED)	1.47

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Dividend Paid					
Dividend	189	235	301	346	398
Total Dividend	189	235	301	346	398
Discounting Factor	0.89	0.81	0.74	0.67	0.61
Present Value of Dividend	168	190	221	231	242

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

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