

## LuLu Retail Holding PLC

Private label offerings and loyalty program growth boosted the topline

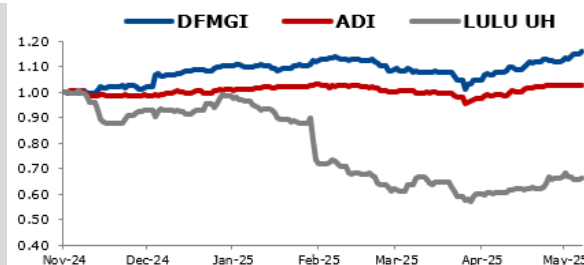
**Current Price**  
AED 1.34

**Target Price**  
AED 2.25

**Upside/Downside (%)**  
+68%

**Rating**  
**BUY**

- Lulu's revenue grew 7.3% YOY to USD 2,080 Mn in 1Q25. The Company added five new stores during 1Q25.
- EBITDA rose 6.5% YOY to USD 214 Mn in 1Q25, whereas EBITDA margin declined 7 bps YOY to 10.3% in 1Q25.
- Private Label products grew 9.5% YOY, making 29.3% of retail revenue in 1Q25, reflecting customer trust and margin resilience.
- The Happiness loyalty program expanded to 6.3 Mn members, accounting for 65% of total sales in 1Q25.
- Lulu aims to open 60 new stores by FY2028–29, focusing on KSA and the UAE, and targets a net profit margin of 5.0–5.5% by 2028–29.



### 1Q25 Net Profit higher than our estimate

Lulu Retail's ("Lulu" or the "Company") net profit from continuing operations rose 15.8% YOY to USD 70 Mn in 1Q25, mainly due to strong revenue growth driven by higher sales during Ramadan period, higher other operating income, and lower net finance cost, partially offset by higher cost of sales, operating expenses and higher taxes.

### P&L Highlights

Lulu Retail's revenue rose 7.3% YOY to USD 2,080 Mn in 1Q25, primarily supported by the growth in LFL sales driven by the strong festive season, new store openings, and higher sales volume across fresh food and lifestyle products. Fresh food category revenue grew 7.9% YOY in 1Q25 driven by consumption trends and contribution from sales through aggregators and Lifestyle product category revenue rose 6.9% YOY in 1Q25. Revenue from Oman increased 7.8% YOY to USD 322 Mn in 1Q25 driven by strong performance in electrical goods category. Additionally, revenue from UAE market grew 5.2% YOY to USD 742 Mn in 1Q25, due to strong growth in fresh food segment and e-commerce sales. Furthermore, revenue from KSA grew double-digit 10.3% YOY to USD 410 Mn in 1Q25, driven by new stores openings and strong LFL growth. Whereas, revenue from the other market like Qatar increased 6.7% YOY to USD 304 Mn in 1Q25, mainly due to good trading period during Ramadan. On the other hand, Kuwait revenue grew 4.8% YOY to USD 171 Mn in 1Q25, due to contribution from supermarket sales. Furthermore, Lulu's high-margin Private Label products increased 9.5% YOY to 29.3% of retail revenue in 1Q25, due to expanded product range tailored to the launch of Lulu Coffee Creamer, strong customer trust, and wider availability across channels. However, LFL sales increased 3.6% YOY in 1Q25. The Company's cost of revenue rose 8.2% YOY to USD 1,616 Mn in 1Q25 due to higher staff expenses, store expansion, and intensified promotional activities during the festive season.

### Stock Information

Market Cap (AED, Mn)	13,944.02
Paid Up Capital (Mn)	143.42
52 Week High	2.06
52 Week Low	1.10
3M Avg. daily value (AED)	20,564,680

### 1Q25 Result Review (USD, Mn)

Total Assets	5,657
Total Liabilities	4,595
Total Equity	1,062
EBITDA	214
Net Profit	70

### Financial Ratios

Dividend Yield (12m)	2.22
Dividend Pay-out (%)	0.00
Est Price-Earnings Ratio(x)	14.59
Price-to-Book Ratio (x)	3.57
Book Value (AED)	0.10
Return-on Equity (%)	23.48

### Stock Performance

5 Days	-1.46%
1 Months	8.87%
3 Months	-9.40%
6 Months	-33.50%
1 Year	-
Month to Date (MTD%)	6.30%
Quarter to Date (QTD%)	2.27%
Year to Date (YTD%)	-28.95%

Gross Profit rose 4.0% YOY to USD 465 Mn in 1Q25. However, gross profit margins declined from 23.0% in 1Q24 to 22.3% in 1Q25 primarily due to promotional campaigns aimed at increasing footfall during the festive season. Other operating income rose 20.0% YOY to USD 80 Mn in 1Q25, mainly due to supplier contributions driven by higher scale and improved negotiations. Thus, EBITDA rose 6.5% YOY to USD 214 Mn in 1Q25, whereas EBITDA margin declined marginally from 10.4% in 1Q24 to 10.3% in 1Q25. Income tax expenses increased from USD 4 Mn in 1Q24 to USD 9 Mn in 1Q25.

### Balance Sheet Highlights

Lulu's cash and cash equivalent rose from USD 346 Mn in 4Q24 to USD 487 Mn in 1Q25. The Company's free cash flow increased 5.3% YOY to USD 188 Mn in 1Q25, leading to a free cash flow conversion ratio of 87.7% in 1Q25 as compared to 88.6% in 1Q24. The Company is gradually transitioning to an asset-light business model. The Company's capex grew marginally from USD 23 Mn in 1Q24 to USD 26 Mn in 1Q25. Total debt declined from USD 974 Mn in 4Q24 to USD 921 Mn in 1Q25. Net debt to EBITDA stood at 2.9x on an IFRS-16 basis in 1Q25.

### Target Price and Rating

We maintain our BUY rating on LuLu with a target price of AED 2.25. LuLu demonstrated strong growth in profitability driven by higher revenue, other operating income, and lower net finance cost during 1Q25. The Company demonstrated strong strategic execution by opening five new stores in 1Q25, including key locations in Makkah and Madinah. The Company is on track to meet its 2025 target of opening 20 new stores, with 80% of contracts already signed, particularly in KSA. Lulu also recorded robust growth across its Private labels and E-commerce channels in 1Q25. Private label contributed 29.3% to retail revenue in 1Q25, up from 28.6% in 1Q24, adding USD 581 Mn in sales during 1Q25. The Company further plans to increase its private label offerings, which is expected to support its margins and solidify its position in the retail market. Lulu's Happiness loyalty program continued to gain traction, reaching 6.3 Mn members and contributing to 65% of total sales, highlighting strong customer engagement. The Company continues to leverage its sourcing presence across 19 countries and a robust regional distribution network to ensure product availability and operational efficiency. Lulu is focused on enhancing its existing stores, expanding its e-commerce and aggregator partnerships, growing its store network, and improving operational efficiencies, which is anticipated to drive revenue and margin growth going forward. In line with its medium-term guidance shared at IPO, Lulu aims to open 60 new stores by FY2028–29, focusing on KSA and the UAE, and targets a net profit margin of 5.0–5.5% by 2028–29. Additionally, the Company signed an MOU with Awqaf Dubai to co-develop community retail spaces, providing access to exclusive locations and promoting deeper community integration. Lulu also continues its international expansion strategy, particularly targeting underpenetrated markets in India. Moreover, the Company's shareholders also approved the distribution of cash dividend of USD 84 Mn (resulting in a dividend of 3 fils per share for 2024). 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)	15.46	15.38
PB (x)	3.88	3.35
EV/EBITDA	5.70	4.83
DPS	0.030	0.067
Dividend yield (%)	2.2%	5.0%

FABS Estimates & Co Data

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

#### LuLu Retail – P&L

USD Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Revenue	1,940	1,894	2,080	2,039	2.0%	7.3%	9.8%	7,621	8,124	6.6%
Direct cost	-1,493	-1,451	-1,616	-1,566	3.2%	8.2%	11.3%	-5,856	-6,256	6.8%
<b>Gross profit</b>	<b>447</b>	<b>443</b>	<b>465</b>	<b>473</b>	<b>-1.8%</b>	<b>4.0%</b>	<b>4.9%</b>	<b>1,765</b>	<b>1,869</b>	<b>5.9%</b>
Other operating income	67	75	80	82	-1.5%	20.0%	6.6%	300	314	4.6%
Operating expenses	-407	-395	-426	-438	-2.8%	4.7%	8.0%	-1,657	-1,717	3.6%
Finance cost, net	-42	-53	-40	-51	-20.9%	-4.7%	-23.9%	-169	-177	4.6%
<b>EBITDA</b>	<b>201</b>	<b>220</b>	<b>214</b>	<b>210</b>	<b>2.0%</b>	<b>6.5%</b>	<b>-2.5%</b>	<b>787</b>	<b>840</b>	<b>6.8%</b>
<b>Profit before tax</b>	<b>65</b>	<b>71</b>	<b>79</b>	<b>66</b>	<b>19.7%</b>	<b>21.6%</b>	<b>10.8%</b>	<b>239</b>	<b>288</b>	<b>20.7%</b>
Income tax expense	-4	-6	-9	-6	49.2%	NM	44.1%	-22	-37	NM
<b>Profit from cont operat</b>	<b>60</b>	<b>65</b>	<b>70</b>	<b>60</b>	<b>16.8%</b>	<b>15.8%</b>	<b>7.7%</b>	<b>216</b>	<b>251</b>	<b>15.9%</b>
Profit from disc. operat	33	0	0	0	NM	NM	NM	33	0	NM
<b>Net Profit</b>	<b>93</b>	<b>65</b>	<b>70</b>	<b>60</b>	<b>16.8%</b>	<b>-25.1%</b>	<b>7.7%</b>	<b>249</b>	<b>251</b>	<b>0.6%</b>

FABS estimate & Co Data

#### LuLu Retail - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	YOY Ch
Gross Profit	23.0%	23.4%	22.3%	-70	-106	23.2%	23.0%	-16
EBITDA	10.4%	11.6%	10.3%	-7	-130	10.3%	10.3%	2
Net Profit	4.8%	3.4%	3.4%	-145	-7	3.3%	3.1%	-19

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	2.53	70.0%	1.77
DDM Method	1.51	15.0%	0.23
Relative Valuation (Average of PE & EV/EBITDA)	1.68	15.0%	0.25
<b>Weighted Average Valuation (AED)</b>			<b>2.25</b>
Current market price (AED)			1.34
Upside/Downside (%)			+68%

### 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 10.1% 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)	1,749
Terminal value (USD, Mn)	5,894
Cash/(Net Debt) (as of Mar 2025)	-518
<b>FV to Common shareholders (USD, Mn)</b>	<b>7,126</b>
No. of shares (Mn)	10,329
Current Market Price (AED)	1.34
<b>Fair Value per share (AED)</b>	<b>2.53</b>

### DCF Method

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	428	499	577	633	690
IFRS Rent	-344	-366	-374	-401	-392
Depreciation & Amortization	375	389	395	428	441
Capex	-135	-131	-116	-119	-127
Change in Working Capital	212	-28	-31	-32	-33
<b>Free Cash Flow to Firm (FCFF)</b>	<b>402</b>	<b>363</b>	<b>452</b>	<b>509</b>	<b>580</b>
Discounting Factor	0.90	0.83	0.77	0.71	0.65
<b>Discounted FCFF</b>	<b>364</b>	<b>302</b>	<b>346</b>	<b>360</b>	<b>378</b>

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 9.7x and 18.6x, respectively, in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
<u>Integrated &amp; Marine peers</u>					
Abdullah Al Othaim Market	2,025	10.7	9.8	18.6	17.6
Savola	2,228	5.5	5.2	18.7	11.4
Bindawood Holding	1,880	9.7	9.2	22.9	21.0
Al Meera Consumer Goods	843	12.0	11.4	16.0	15.0
Spinneys	1,470	8.5	7.7	17.2	16.2
Average		9.3x	8.7x	18.7x	16.2x
Median		9.7x	9.2x	18.6x	16.2x
Max		10.7x	9.8x	18.7x	17.6x
Min		8.5x	7.7x	17.2x	15.0x

Source: FAB Securities

## 3) DDM Method:

Lulu Retail plans 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 10.1%.

Sum of PV (USD, Mn)	1,085
Terminal value (USD, Mn)	3,170
<b>FV to Common shareholders (USD, Mn)</b>	<b>4,255</b>
No. of shares (Mn)	10,329
Current Market Price (AED)	1.34
<b>Fair Value per share (AED)</b>	<b>1.51</b>

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
<b>Dividend Paid</b>					
Dividend	188	247	313	358	410
<b>Total Dividend</b>	<b>188</b>	<b>247</b>	<b>313</b>	<b>358</b>	<b>410</b>
Discounting Factor	0.89	0.81	0.73	0.67	0.61
<b>Present Value of Dividend</b>	<b>167</b>	<b>200</b>	<b>230</b>	<b>239</b>	<b>249</b>

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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