UAE Consumer Staples Sector – December 2024

Demographic Expansion and Sustained Consumer Expenditure to Catalyze Demand Growth Dynamics

Sector Weighting: **MARKET WEIGHT**

We prefer Agthia over Americana Restaurants and LuLu Retail following the price correction. Agthia faced challenges, particularly related to currency devaluation in Egypt which may have contributed to investor concerns potentially affecting the share price. Agthia prioritizes product innovation, premiumization, and digitalization of operations across all segments to expand margins. The Company generated revenue of AED 123 Mn through product innovation in 9M24. It has also introduced a B2B portal for HORECA and food service channels to streamline order processing into ERP systems. Additionally, the integration of the AI recognition model in its Al Ain dates facility has enhanced product quality and sizing. Furthermore, Agthia exited non-performing businesses and increased product prices to safeguard its profit margins and mitigate the revenue decline caused by currency devaluation in Egypt. On the other hand, Americana witnessed a slowdown in consumer demand due to prolonged geopolitical issues and higher inflation. It also lowered its store guidance to 150-160 stores in FY2024 owing to changes in business trends. However, Americana is taking various initiatives both on the revenue and cost front to overcome current challenges. It plans to introduce daily value offers across markets to increase order frequency. Meanwhile, LuLu Retail focuses on maximizing growth within existing stores through targeted and complementary offerings. It prepared detailed monthly plans tailored to each category and region to deliver timely and relevant promotions that resonate with diverse customer segments. LuLu also aims to enhance its online channel to maximize its revenue growth. Following the price correction, Agthia's valuations appear compelling, while Americana and LuLu are well-positioned to capitalize on their strategies aimed at driving sales growth.

Stock	Target Price (AED)	CMP (AED)	Gain	Rating	P/E[1]	EV/EBITDA[1]	Dividend Yield[1]
Agthia Group	8.00	6.09	31.4%	**BUY**	14.49	8.27	3.4%
Americana Restaurants	3.15	2.48	27.0%	**BUY**	35.47	12.47	2.3%
Lulu Retail	2.55	1.94	31.4%	**BUY**	19.53	5.22	1.8%[2]

Source: FABS Estimate, [1]Data refers of FY2024 *[2] 1.8% is related to 2H24*

Key Developments in the Consumer Sector

Consumer prices fell across UAE, Saudi Arabia, and Egypt in December 2024

In the 3Q24, the UAE's Consumer Price Index headline inflation reduced considerably from 2Q24 to 1.5% YOY in 3Q24. The decline in inflation was primarily attributed to the softening in prices of most categories except transportation, communications, furniture and household goods, and tobacco. In addition, the slowdown in prices is also attributed to lower growth in prices of tradeable which grew 0.7% YOY in 3Q24 and constituted 31.4% of the total weight. Further, the slowdown in the increase in the price of non-tradeable goods to 2.0% YOY in 3Q24 compared to 2.4% in 2Q24. The drop in the price of transportation was of 35.1% of the inflation basket firmed up from 3.1% in 2Q24 to 3.2% YOY in 3Q24. The price of food and beverages also firmed up from 1.5% in 2Q24 to 2.3% YOY in 3Q24. The Central Bank of the UAE (CBUAE) revised its 2024 inflation forecast from 2.2% to 1.8%, reflecting ongoing price developments and lower-than-expected realised inflation on YTD basis. Inflation is projected to reach approximately 2.0% in 2025, primarily driven by growth in non-tradeable components of the consumer basket, though this is expected to be partially offset by moderating energy prices. In Saudi Arabia, annual inflation softened marginally from 2.0% in November 2024 to 1.9% in December 2024. The decline is mainly attributed to decline in price of tobacco, clothing & footwear, furnishing & household equipment, health, transportation, communication and recreation & culture partially offset by an increase in price of housing, water, electricity and Gas prices, food & beverages and others. Meanwhile, Egypt also experienced a decline in annual urban consumer inflation from 25.5% YOY in November 2024 to 24.1% YOY in December 2024, primarily due to a fall in the price of food. Food prices dropped 1.5% in December 2024 after falling 2.8% in November 2024.

UAE and Saudi Arabia capitalize on rising travel demand and tourism activity

Dubai welcomed 16.79 Mn international visitors from January to November 2024, reflecting a 9% YOY increase from 15.37 Mn during the same period in 2023. Hotel occupancy in Dubai averaged 76.4% over the 9M24, surpassing the previous year's rate of 75.7%. According to the Central Bank of the UAE (CBUAE), passenger traffic across UAE airports experienced a growth of 12.6% YOY growth, reaching 97.9 Mn in the 9M24. Abu Dhabi's Zayed International Airport saw a remarkable 31.2% increase, serving over 21.7 Mn passengers, reinforcing the emirate's position as a key leisure and business travel hub. Dubai International Airport (DXB) also recorded a 6.3% YOY growth in passenger traffic during the same period, driven by strong travel demand. Both cities' tourism and hospitality sectors demonstrated resilience, with high occupancy rates and average revenue per room growth. Dubai International Airport is projected to achieve its highest passenger traffic, with a forecast of 91.9 Mn by the end of fiscal year 2024. Meanwhile, Abu Dhabi International Airport reported nearly 7.7 Mn passengers in the 3Q24, marking a 27% YOY increase. In Saudi Arabia, international tourist arrivals surged by 73%, and tourism revenues skyrocketed by 207% in 2024, with 17.5 Mn tourists visiting during the first seven months. The Riyadh Season alone attracted 1 Mn visitors in just ten days, bringing the total visitor count to 13 Mn since its launch in October 2024. Additionally, 6.2 Mn pilgrims performed Umrah in the third quarter of 2024, reflecting a 35% YOY growth. Given the robust growth in tourism across the UAE and Saudi Arabia, these economies' consumer and hospitality sectors are well-positioned to benefit from the continued momentum in tourism activity.

UAE & KSA non-oil sector sees strong growth in PMI, while Egypt faces decline

The S&P Global UAE Purchasing Managers' Index (PMI) strengthened to 55.4 in December 2024 from 54.2 in November 2024, at its highest level in the last 9 months, attributable to a robust and vigorous expansion in the non-oil private sector. Strong demand conditions fueled the fastest growth in new business recorded over the past nine months, prompting companies to expand output to its highest extent since April 2024. However, limited expansion in the workforce led to significant backlog and strain on operational capacity. For the third consecutive month, non-oil companies highlighted a reduction in output charges in December 2024. In addition, the reports further signaled an effort to discount client fees and support sales growth. The input cost rose, while the inflation rose at the slowest pace since March 2024. In December 2024, the Dubai Purchasing Managers' Index (PMI) increased from 53.9 in November to 55.5 in December 2024, indicating substantial growth in operating conditions in nine months. This improvement was driven by faster expansion in output and new orders, as businesses reported heightened client demand and active markets, with growth rates surpassing those observed at the national level. The surge in new business led to a moderate rise in employment, although inventories of inputs declined for the second consecutive month. Following previous reductions in October and November, output charges began to rise again. Although the firms in Dubai expressed weak optimism to 2025 as the confidence dropped to its lowest since May 2021.

Saudi Arabia's non-oil private sector continued to record strong growth in December 2024, with the country's Purchasing Managers' Index (PMI) registering a solid 58.4, signaling a marked improvement in business conditions. New orders surged driven by robust domestic demand and notable export growth, particularly in the wholesale and retail sectors. Output and business activity expanded, though at a slightly slower pace compared to November. Purchasing activity reached a nine-month high, and inventory accumulation increased, although job creation softened. Despite a sharp rise in material costs and overall input price inflation, wage pressures eased, and firms raised prices only slightly due to high competition and stock levels. Supplier delivery times improved, helping firms manage inventories more effectively. Business confidence also rose, with expectations for continued growth into 2025. Overall, the data suggests a strong end to 2024 and positive prospects for the non-oil economy in the year ahead. At the end of 2024, Egypt's non-oil private sector experienced a deterioration in business conditions, as the S&P Global Egypt Purchasing Managers' Index (PMI) dropped from 49.2 in November 2024 to 48.1 in December 2024, signaling the fourth consecutive month of decline. The rate of decline was modest but strongest since April 2024. Output contracted at the sharpest rate in eight months, primarily due to subdued client demand and rising inflationary pressures, exacerbated by a weakening exchange rate against the US dollar. The weak exchange rate softened market conditions and resulted in firms absorbing a greater share of the cost burden. The downturn was most significant in the construction and wholesale & retail sectors, while the services sector showed stability. Material costs rose sharply, contributing to the fastest rate of input price inflation in three months. Businesses also reduced inventories for the first time in six months and cut employment for the second consecutive month, although the reduction was moderate.

Contents:

4Q24 Preview: Agthia Group

Global expansion and the rollout of new products to boost profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 6.09	AED 8.00	+31%	BUY

4Q24 estimate

Agthia Group (AGTHIA/the Company) is projected to report a robust 43.4% YOY increase in net profit, reaching AED 119 Mn in 4Q24. This growth is primarily driven by a reduction in income tax expenses and an uptick in net finance income, partially offset by a rise in the cost of sales. The Company's revenue is expected to grow 12.7% YOY to AED 1,454 Mn in 4Q24, reflecting strong performance across its consumer and agribusiness segments, with the snacking division anticipated to generate AED 487 Mn. This moderate growth in snacking is attributed to the launch of new products and an increase in export volumes. The cost of sales is forecasted to rise 14.5% YOY to AED 1,022 Mn in 4Q24. As a result, gross profit is expected to grow 8.6% YOY to AED 432 Mn, with a gross margin of 29.7%. S&D and G&A expenses are projected to decrease 10.8% and 13.8% YOY, to AED 169 Mn and AED 101 Mn, respectively. Other income is anticipated to decline from AED 20 Mn in 4Q23 to AED 10 Mn in 4Q24. Operating profit is estimated to decline 2.8% YOY to AED 170 Mn. EBITDA is also projected to decline 6.5% YOY to AED 222 Mn, although the EBITDA margin is expected to improve, rising from 18.4% in 4Q23 to 15.3% in 4Q24. Finance income is expected to increase 11.2% YOY to AED 6 Mn, while finance costs is forecasted to decrease by 9.1% YOY to AED 25 Mn. Income tax and zakat expenses are projected to decrease significantly 70.5% YOY to AED 16 Mn in 4Q24.

2024 forecast

We estimate Agthia Group's net profit to increase 33.8% YOY to AED 349 Mn in 2024, driven by anticipated revenue growth, a reduction in income tax expense, and lower finance costs. This positive performance is expected to be partially offset by a rise in the cost of sales, as well as higher operating expenses, alongside a decline in finance income. The Company's revenue is forecasted to grow 11.0% YOY to AED 5,061 Mn in 2024, supported by the global expansion of its operations and the broadening of its product portfolio. However, the cost of sales is expected to increase 10.9% YOY to AED 3,549 Mn. As a result, gross profit is anticipated to rise 11.1% YOY to AED 1,512 Mn in 2024. S&D expenses are projected to grow 8.7% YOY to AED 628 Mn, while G&A expenses are expected to increase 9.3% YOY to AED 385 Mn. Finance income is expected to decline significantly 45.4% YOY to AED 14 Mn, while finance costs is forecasted to decrease 15.4% YOY to AED 96 Mn. Income tax and zakat expenses is anticipated to fall 23.5% YOY to AED 63 Mn in 2024. Additionally, the share of profit attributable to non-controlling interest holders is projected to rise slightly 0.6% YOY to AED 39 Mn in 2024.

3Q24 outturn

AGTHIA's revenue grew 1.1% YOY to AED 1,082 Mn in 3Q24 primarily driven by strong growth in the Water & Food Segment with marginal growth in Snacking & Agri-Business, partially offset by a decline in revenue of the Protein & Frozen Segment due to EGP devaluation. Revenue from the Protein and Frozen segment fell 10.3% YOY to AED 240 Mn in 3Q24 mainly due to a devaluation of Egyptian currency and increased competition. Snacking business revenue rose marginally 2.5% YOY to AED 279 Mn in 3Q24 mainly due to a growth in the performance of coffee and dates coupled with growth in the launch of new products. Water and Food business revenue grew 9.5% YOY to AED 278 Mn in 3Q24 owing to the company's strong leadership position in the segment and strong growth in Al Ain glass bottles business. Agri-business revenue grew marginally by 3.1% YOY to AED 285 Mn in 3Q24 due to strong performance in Animal Feed division. The Company's direct cost grew faster than revenue growing 2.3% YOY to AED 747 Mn in 3Q24. Thus, gross profit declined 1.4% YOY to AED 334 Mn in 3Q24. Furthermore, gross profit margin contracted 79 bps YOY to 30.9% in 3Q24, while the EBITDA margin rose 65 bps YOY to 14.3% in 3Q24 owing to a rise in the EBITDA of all segments except Snacking Segment. Snacking segment EBITDA declined 20.5% YOY to AED 30 Mn in 3Q24. Protein & Frozen segment EBITDA marginally declined 1.1% YOY to AED 27 Mn, Water & Food Segment EBITDA rose 6.4% YOY to AED 46 Mn, Agri-business EBITDA significantly increased 51.3% YOY to AED 58 Mn in 3Q24. Furthermore, the finance income declined from AED 7 Mn in 3Q23 to AED 1 Mn in 3Q24. The finance cost also declined 32.7% YOY to AED 18 Mn in 3Q24 due to effectively managing the hedging and interest rate. Additionally, income tax and zakat expenses grew from AED 10 Mn in 3Q23 to AED 17 Mn in 3Q24 attributed to the introduction of UAE corporate tax in FY2024. Share of profit attributable to non-controlling interest holders fell 28.0% YOY to AED 6 Mn in 3Q24. Agthia Group's net profit rose 11.3% YOY to AED 59 Mn in 3Q24.

Target price and recommendation

We revise our rating on AGTHIA from ACCUMULATE to BUY with an unchanged target price of AED 8.00. AGTHIA recorded a healthy growth in revenue and EBITDA in 3Q24, despite inflationary pressures, currency devaluation in Egypt, and increased competition. The Company maintained its guidance for FY2024 and expects revenue to grow 10-12% and margins to expand in 2024. EBITDA margin is expected to expand by 40-60 bps and net margin by 30-50 bps in FY2024. AGTHIA revenue grew 10.3% YOY during 9M24 out of which volume contributed 8.5% and 1.8% was due to improved pricing. AGTHIA is prioritizing product innovation and premiumization coupled with leveraging on digitalization of operations across all segments and aiming to expand margins. It generated revenue of over AED 123 Mn through strategic product innovation in 9M24. The Company launched premium products under the "Nabil" brand in Jordan which would generate 40% margins compared to existing base business margins of 30%. AGTHIA's water business continues to drive the growth of glass bottles, plant-based and 100% rPET bottles. The Company launched a B2B portal for HORECA and food service channels allowing them to upload orders efficiently into ERP. The company also integrated an AI recognition model in the dates facility in Al Ain which would facilitate them to improve the quality and size of dates, aligned with its goal to digitalize business units. These steps are aligned with the Company's aim to integrate digitalization into the business to improve customer experience and margins. Agthia's Abu Auf added 49 new stores in Egypt during 9M2024, aligned with its aim to expand its retail footprint. It also launched soluble coffee products in Egypt. Agthia exited from a non-performing UAE dairy business, Yoplait. It led to a one-time asset write-off of AED 10 Mn negatively impacting profit in 9M24. This exit decision is expected to result in a benefit of AED 5 Mn per year. The Company's Egypt business delivered a solid performance despite the devaluation of the EGP. It generated AED 73.2 Mn export revenue in 9M24. In addition, it focuses on protecting margins in Egypt by increasing the prices of its products. AGTHIA has guided revenue of AED 6 Bn, EBITDA margin in the range of 15.5-16.5%, and a net margin of 8.5-10% range by FY2025. This growth is expected to be realized through a mix of organic and inorganic opportunities. It also focuses on improving the efficiency of its existing capacity rather than incurring additional CAPEX. Thus, considering all these factors, we assign a BUY rating on the stock.

Agthia - Valuation

(at CMP)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024F**
P/E (x)	27.98	111.30	22.13	20.51	19.39	14.49
P/B (x)	1.96	2.02	1.75	1.80	1.74	1.80
EV/EBITDA (x)	14.26	21.59	13.19	11.49	8.92	8.27
Dividend Yield (%)	2.3%	2.7%	2.7%	2.7%	2.9%	3.4%

FABS estimate & Co Data

Agthia - P&L

AED mm	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	1,290	1,082	1,454	12.7%	34.4%	4,561	5,061	11.0%
Cost of sale	-892	-747	-1,022	14.5%	36.7%	-3,200	-3,549	10.9%
Gross profit	**398**	**334**	**432**	**8.6%**	**29.3%**	**1,361**	**1,512**	**11.1%**
S&D expense	-152	-148	-169	10.8%	14.2%	-577	-628	8.7%
G&A expense	-89	-93	-101	13.8%	8.2%	-352	-385	9.3%
R&D costs	-2	-2	-2	18.9%	4.5%	-8	-8	-5.9%
Other (exp) / inc	20	8	10	-50.9%	29.7%	48	40	-15.0%
EBITDA	**237**	**155**	**222**	**-6.5%**	**43.1%**	**702**	**759**	**8.1%**
Operating profit	**175**	**99**	**170**	**-2.8%**	**72.4%**	**471**	**533**	**13.1%**
Finance income	5	1	6	11.2%	NM	26	14	-45.4%
Finance expense	-27	-18	-25	-9.1%	34.9%	-113	-96	-15.4%
Share of loss from invest in JV	-1	0	-2	NM	NM	3	0	NM
Profit before tax and zakat	**148**	**81**	**149**	**0.6%**	**82.9%**	**382**	**451**	**18.1%**
Income tax & zakat	-54	-17	-16	-70.5%	-3.5%	-83	-63	-23.5%
Profit before NCI	**94**	**65**	**133**	**41.6%**	**104.9%**	**300**	**388**	**29.5%**
Non-controlling interest	-11	-6	-14	27.9%	NM	-39	-39	0.6%
Net Profit	**83**	**59**	**119**	**43.4%**	**NM**	**261**	**349**	**33.8%**

FABS estimate & Co Data

Agthia - Margins

	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	30.8%	30.9%	29.7%	-112	-118	29.8%	29.9%	4
Operating Profit	13.6%	9.1%	11.7%	-187	258	10.3%	10.5%	20
EBITDA	18.4%	14.3%	15.3%	-312	93	15.4%	15.0%	-40
Net Profit	6.4%	5.4%	8.2%	175	277	5.7%	6.9%	118

FABS estimate & Co Data

4Q24 preview: Americana Restaurants

Weak same-store sales and higher zakat expenses to weigh on profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.48	AED 3.15	+27%	BUY

4Q24 estimate

Americana Restaurants (the Company/ Americana) is expected to report a 31.5% YOY increase in net profit to USD 43 Mn in 4Q24. This growth is primarily driven by increase in sales partially offset by a rise in direct cost, operating expenses, and zakat charge. The Company's revenue is projected to rise 9.5% YOY to USD 565 Mn in 4Q24, while the cost of sales is anticipated to increase by 8.2% YOY to USD 266 Mn. Consequently, gross profit is expected to grow 10.6% YOY to USD 299 Mn. Selling and marketing expenses are estimated to rise 9.7% YOY to USD 201 Mn, while G&A expenses are forecasted to increase 8.6% YOY to USD 49 Mn. As a result, total operating expenses are expected to increase by 1.1% YOY to USD 237 Mn. EBITDA is anticipated to rise by 26.3% YOY to USD 132 Mn in 4Q24, with the EBITDA margin improving by 311 bps YOY to 23.3%. Finance income is projected to decline 0.2% YOY to USD 5 Mn in 4Q24, while finance cost is expected to grow by 13.2% YOY to USD 9 Mn. Additionally, zakat charge is forecasted to amount to USD 9 Mn due to the introduction of corporate tax in the UAE in 2024.

2024 forecast

We estimate Americana Restaurants' net profit to decline 38.2% YOY to USD 160 Mn in 2024. This decline is primarily attributed to a projected decrease in sales and an increase in zakat expenses due to the introduction of corporate tax in the UAE, partially offset by a reduction in direct costs and an increase in finance income. Americana's revenue is expected to decrease 10.0% YOY to USD 2,173 Mn in 2024, while the cost of sales is anticipated to decline 11.3% YOY to USD 1,022 Mn. As a result, gross profit is likely to decrease 8.8% YOY to USD 1,151 Mn. Selling and distribution expenses are projected to decrease marginally 0.1% YOY to USD 777 Mn, while G&A expenses are expected to fall 1.4% YOY to USD 189 Mn. Finance cost is anticipated to increase 14.0% YOY to USD 35 Mn, driven by high benchmark rates, while finance income is expected to rise from USD 15 Mn in 2023 to USD 18 Mn in 2024. Additionally, zakat expenses are projected to increase from USD 13 Mn in 2023 to USD 23 Mn in 2024 due to the implementation of corporate tax in the UAE.

3Q24 outturn

Americana restaurant's revenue declined significantly by 15.3% YOY to USD 555 Mn in 3Q24 primarily driven by a slowdown in consumer demand in some markets, prolonged geopolitical conflict, and an increase in inflation partially offset by an expansion of sales due to store additions. Revenue from the Power Brands portfolio decreased substantially by 15.1% YOY to USD 521 Mn in 3Q24, while the revenue of the Growth/ Niche portfolio experienced a similar decline. Americana restaurant added 32 gross new stores with a portfolio of 2,504 restaurants in 3Q24, however, the Like-for-like (LfL) revenue declined 18.0% YOY 3Q24. The company's cost of goods sold fell faster than revenue declining 16.5% YOY to USD 258 Mn in 3Q24 due to favourable commodity price trends, successful inventory management and various procurement initiatives. Thus, Americana's gross profit declined 14.3% YOY to USD 297 Mn in 3Q24. Gross profit margin improved 65 bps YOY to 53.5% in 3Q24. Americana's total operating expenses fell 3.1% YOY to USD 249 Mn in 3Q24 owing to lower selling & marketing and G&A expenses partially offset by a decline in other income. Selling & marketing expenses fell 2.1% YOY to USD 206 Mn and G&A expenses reduced 11.0% YOY to USD 43 Mn in 3Q24. On the other hand, other income fell 68.7% YOY to USD 1 Mn in 3Q24. Thus, Americana's EBITDA fell 23.8% YOY to USD 118 Mn in 3Q24. EBITDA margin fell 190 bps QOQ basis to 21.2% in 3Q24 due to seasonality, higher delivery cost and higher utility & maintenance expenses due to the summer season. EBIT also declined 46.3% YOY to USD 48 Mn in 3Q24. Additionally, the company finance income fell 24.0% YOY to USD 4 Mn in 3Q24, while finance cost rose 20.5% YOY to USD 9

Mn in 3Q24. Hence, profit before zakat declined considerably 51.0% YOY to USD 42 Mn in 3Q24. The company's zakat expenses more than doubled from USD 3 Mn in 3Q23 to USD 6 Mn in 3Q24 due to the introduction of corporate tax in UAE in FY2024.

Target price and recommendation

We maintain our BUY rating on Americana Restaurant with an unchanged target price of AED 3.15. The Company continued to experience a decline in the top line due to a slowdown in consumer demand in some markets, prolonged geopolitical issues, and higher inflation. Americana added 32 gross new stores, with a portfolio of 2,504 restaurants in 3Q24. It also lowered its new store guidance to 150-160 stores in FY2024 due to changes in business trends. However, the Company is taking various initiatives both on the revenue and cost front to overcome current challenges. Americana opened two Krispy Kreme outlets in Morocco in 3Q24 and is building the pipeline to scale up operations in Morocco. Additionally, the company launched a Peets Coffee store in Abu Dhabi, as part of its expansion plan and committed to expanding premium coffee offerings in UAE. Americana continues to take initiatives to drive transactions. It has undertaken multiple initiatives focusing on product innovation and attractive offers to customers to drive sales. These initiatives are driven across markets and brands. Due to these initiatives, the Company witnessed a robust recovery in Hardee's and Pizza Hut in 3Q24 compared to 1H24. Additionally, it took more steps to drive sales of KFC in October 2024 which was lower in 3Q24 due to the value campaign and epic meals resulting in check dilution in 3Q24. Americana expects the initiatives will result in higher sales MOM with recovery in some markets at a higher rate and some at a slower rate. Moreover, Americana also expanded digital platform kiosks in KFC stores located in Kuwait and Qatar. The company expanded last last-mile delivery platform that operates in nine locations in Kazakhstan. Americana Restaurant added new aggregators to its platform to expand its reach and capture a large portion of the market share. Americana Restaurant witnessed a major recovery in average daily transactions and average daily sales in 3Q24 compared to 2Q24. The Company plans to introduce daily value offers across markets to increase order frequency. It also expects gross margin to improve in 4Q24 compared to 3Q24 as Americana plans to reduce the value of offers owing to positive seasonality during the period. Thus, based on our analysis, we assign a BUY rating on the stock.

Americana - Relative Valuation

(at CMP)	2022	2023	2024F
PE	21.96	21.94	35.47
PB	20.00	12.96	12.47
EV/EBITDA	10.11	9.67	11.24
Dividend Yield	3.7%	3.2%	2.3%

FABS Estimate & Co Data

Americana - P&L

(USD mm)	4Q23	3Q24	4Q24F	YOY Ch.	QOQ Ch.	2023	2024F	Change
Revenue	516	555	565	9.5%	1.8%	2,413	2,173	-10.0%
COGS	-246	-258	-266	8.2%	3.0%	-1,152	-1,022	-11.3%
Gross Profit	**270**	**297**	**299**	**10.6%**	**0.8%**	**1,262**	**1,151**	**-8.8%**
S&M Expenses	-183	-206	-201	9.7%	-2.2%	-777	-777	-0.1%
G&A Expenses	-45	-43	-49	8.6%	13.2%	-192	-189	-1.4%
Other Income	8	1	12	55.9%	NM	17	18	5.0%
Total Operating Exp.	**-235**	**-249**	**-237**	**1.1%**	**-4.6%**	**-970**	**-947**	**-2.4%**
EBITDA	**104**	**118**	**132**	**26.3%**	**11.8%**	**551**	**483**	**-12.2%**
EBIT	**35**	**48**	**62**	**74.0%**	**28.6%**	**291**	**204**	**-30.0%**
Financing income	5	4	5	-2.0%	41.5%	15	18	14.4%
Financing cost	-8	-9	-9	13.2%	2.1%	-31	-35	14.0%
Profit Before ZAKAT	**32**	**42**	**57**	**77.5%**	**35.4%**	**275**	**186**	**-32.5%**
Zakat	0	-6	-9	NM	56.1%	13	23	78.1%
Net Profit	**32**	**37**	**48**	**51.4%**	**32.1%**	**262**	**163**	**-38.0%**
Non-controlling interest	-1	-1	5	NM	NM	3	2	-26.2%
Net profit	**33**	**37**	**43**	**31.5%**	**15.1%**	**259**	**160**	**-38.2%**

FABS Estimate & Co Data

Americana - Margins

	4Q23	3Q24	4Q24F	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	52.4%	53.5%	52.9%	56	-55	52.3%	53.0%	69
EBITDA	20.2%	21.2%	23.3%	311	208	22.8%	22.3%	-57
Operating Profit	6.9%	8.6%	10.9%	405	227	12.1%	9.4%	-269
Net Profit	6.3%	6.7%	7.6%	128	88	10.8%	7.4%	-337

FABS estimate and Co data

4Q24 preview: LuLu Retail

Expansion of stores to boost profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 1.94	AED 2.55	+31%	BUY

4Q24 estimate

Lula Retail's ("LuLu" or "the Company") net profit is anticipated to fall significantly by 36.8% YOY to USD 95 Mn in 4Q24, mainly due to an increase in the cost of revenue, operating expenses, net finance costs, and higher income taxes partially offset by an increase in revenue. The Company's revenue is forecasted to grow 19.9% YOY to USD 2,231 Mn in 4Q24. The direct cost is estimated to increase 23.1% YOY to USD 1,718 Mn in 4Q24. Thus, gross profit is estimated to rise 10.2% YOY to USD 513 Mn in 4Q24. Moreover, other operating income is expected to fall 30.3% YOY to USD 55 Mn in 4Q24 while operating expense is projected to rise 3.3% YOY to USD 416 Mn in 4Q24. EBITDA is anticipated to rise 16.5% YOY to USD 253 Mn in 4Q24. The net finance cost is likely to increase 25.9% YOY to USD 37 Mn in 4Q24. Additionally, profit before tax is estimated to grow 2.2% YOY TO USD 115 Mn in 4Q24. Income tax expenses is estimated to grow significantly from USD 8 Mn in 4Q23 to USD 21 Mn in 4Q24.

2024 forecast

Lulu's net profit is anticipated to increase 25.9% YOY to USD 279 Mn in 2024 mainly driven by an anticipated increase in revenue, and other operating income partially offset by expected growth in cost of revenue, other expenses, and tax expenses. LuLu's revenue is expected to grow 9.3% YOY to USD 7,958 Mn in 2024 driven by strong growth in the number of stores. The Company's direct cost will likely increase 9.3% YOY to USD 6,123 Mn in 2024. Thus, gross profit is expected to rise from USD 1,675 Mn in 2023 to USD 1,835 Mn in 2024. On the other hand, other operating income is forecasted to grow 2.5% YOY to USD 280 Mn in 2024. Operating expenses are estimated to rise 6.2% YOY to USD 1,678 Mn in 2024. EBITDA is estimated to rise 9.0% YOY to USD 820 Mn in 4Q24. In contrast, net finance cost is expected to grow marginally 0.2% YOY to USD 154 Mn in 2024. LuLu's tax expense is likely to rise from USD 23 Mn in 2023 to USD 37 Mn in 2024. The Company is expected to record 10.7% YOY growth in profit from discontinued operations to USD 33 Mn in 2024.

3Q24 outturn

LuLu's revenue grew 6.1% YOY to USD 1,859 Mn in 3Q24 primarily driven by an increase in the number of stores across key markets, UAE, KSA, and Kuwait. The Company's direct cost saw grew 4.3% YOY to USD 1,424 Mn in 3Q24. Thus, gross profit rose 12.4% YOY TO 435 Mn. Gross Margin increased from 22.1% in 3Q23 to 23.4% in 3Q24. The other operating income increased 12.1% YOY to 76 Mn in 3Q24. Additionally, operating expenses rose 7.6% YOY to USD 430 Mn in 3Q24. Net finance cost of the Company increased 8.9% YOY to USD 41 Mn in 3Q24. Thus, EBITDA witnessed an 10.0% YOY growth to 176 Mn in 3Q24. The EBITDA Margin grew from 9.1% in 3Q23 to 9.5% in 3Q24. The income tax expense amounted to USD 5 Mn in 3Q24 owing to higher profitability. Additionally, the Company is not expected to record any gain/loss from discontinuing operations in 3Q24 compared to a loss of USD 8 Mn in 3Q23.

Target price and recommendation

We maintain a BUY rating on LuLu Retail with a target price of AED 2.55. The Company's profitability grew fourfold in 3Q24, compared to 3Q23. The revenue grew 6.1% YOY to USD 1.86 Bn. Lulu Retail's strong sales performance in 3Q24 was driven by substantial growth in the UAE, Saudi Arabia, and Kuwait markets and notable growth in the Fresh Food and Electrical Goods segment. The Company further focuses on maximizing growth within existing stores through targeted and complementary initiatives. LuLu Retail develops detailed monthly promotion plans tailored to each category and region to deliver timely and relevant promotions that resonate with diverse customer segments.

These initiatives will likely benefit the Company by enhancing customer satisfaction and boosting sales volumes. Lulu Retail's e-commerce sales grew 83.5% YOY to USD 237.4 Mn attributable to the Company's focus on omnichannel strategies. The Company plans to enhance its online channel to maximize growth by utilizing favourable trends, growing capacity, and higher penetration. LuLu Retail offers over 200,000 active SKUs with an average basket size of USD 30-35. Going forward, the Company plans to capitalize on tangible growth opportunities by enhancing private-label offerings and expanding into new product lines and categories. LuLu Retail leverages over 20 years of average-length supplier relationships ensuring a steady supply of quality products. The Company's large-scale operation provides a significant competitive advantage through enhanced negotiating leverage and operational effectiveness. Its established partnerships with global FMCG brands like P&G, Unilever, and PepsiCo, along with key sourcing offices in China, the USA, and the UK, support a robust supply chain. Moreover, regional partnerships with Almarai, Agthia, Afia, and Alsafa further support its market position and operational efficiency. The Company's scaled logistics and distribution infrastructure position it to support its growth and create a competitive edge in the GCC regions. LuLu also focuses on a disciplined capex strategy and is progressively transitioning toward a capital-light model. As a result, the capex intensity fell from 1.9% in 9M23 to 1.7% in 9M24. Capital expenditure stood at USD 98.5 Mn during 9M24. The capital-light model requires less investment which is likely to benefit LuLu Retail. Hence, based on the above-mentioned factors, we assign a BUY rating on the stock.

LuLu Retail - Relative Valuation

(at CMP)	2022	2023	2024F
PE	NA	24.60	19.53
PB	NA	7.11	5.22
EV/EBITDA	NA	8.38	7.14
Dividend Yield	NA	NA	1.8%

FABS Estimate & Co Data

*As Lulu retail is listed in 2023, multiples for the prior period are not available

LuLu Retail - P&L

(USD mm)	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Revenue	1,861	1,859	2,231	19.9%	20.0%	7,278	7,958	9.3%
Cost of revenue	-1,395	-1,424	-1,718	23.1%	20.7%	-5,603	-6,123	9.3%
Gross profit	**466**	**435**	**513**	**10.2%**	**17.9%**	**1,675**	**1,835**	**9.6%**
Other operating income	79	76	55	-30.3%	-27.0%	273	280	2.5%
Operating expenses	-403	-430	-416	3.3%	-3.3%	-1,580	-1,678	6.2%
Finance cost, net	-29	-41	-37	25.9%	-9.2%	-153	-154	0.2%
EBITDA	**217**	**176**	**253**	**16.5%**	**43.8%**	**753**	**820**	**9.0%**
Profit before tax	**113**	**40**	**115**	**2.2%**	**187.3%**	**215**	**283**	**31.9%**
Income tax expense	-8	-5	-21	146.2%	NM	-23	-37	62.4%
Net Profit from cont. operation	**105**	**35**	**95**	**-9.3%**	**170.1%**	**192**	**246**	**28.3%**
Profit from discontinued operations	46	0	0	NM	NM	30	33	10.7%
Net profit	**150**	**35**	**95**	**-36.8%**	**170.1%**	**222**	**279**	**25.9%**

FABS Estimate & Co Data

LuLu Retail - Margins

	4Q23	3Q24	4Q24F	YOY Ch	QOQ Ch	2023	2024F	YOY Ch
Gross Profit	25.0%	23.4%	23.0%	-202	-42	23.0%	23.1%	4
EBITDA	11.7%	9.5%	11.3%	-33	187	10.3%	10.3%	-4
Net Profit	8.1%	1.9%	4.3%	-382	236	3.0%	3.5%	46

FABS estimate and Co data

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