

of 23. September 2009, 7<sup>th</sup> year

## **Orad Hi-Tec Systems: Virtual World at a Real Price**

Have you, too, been amazed by ZDF's "Today" journal's new studio? Marietta Slomka and Claus Kleber have been sitting in a virtual world for some time. Recently, TV stations have increasingly been relying on such virtual studios. The design has a modern feel and can be altered at any time (at significantly lower costs). The studio appears much larger than it really is (saving rental costs), and at the same time, with the new-look image, one can communicate with new target groups. Even if this sounds very easy and logical at first glance, it conceals a highly complex technology. Israeli firm Orad Hi-Tec Systems [National Securities Identification Number (WKN) 928634], listed since 1999 on the German bourse in the 'Prime Standard' category, specializes in this field. The company, with about 1700 employees, sells its technologies worldwide and, in doing so, has won several prestigious clients (ZDF's studio, apropos, is from one of Orad's competitors but in general resembles the Orad technology). In addition, Orad supplies so-called 'screen graphics', the virtual studios described above, and visualizations in the field of sports (e.g. fading in of offside lines on the football field or the designation of swimmers in the water) as well as virtual advertising. Videos explaining Orad products can be found on its website, [www.orad.tv](http://www.orad.tv).

In the last two quarters, Orad was strongly buffeted by the economic crisis. After a 39% sales increase in 2008 compared to the previous year, revenues in the first half of 2009 dropped 30% compared to the same period in 2008. In absolute numbers, sales were 11.2 million USD and the EBDITA 0.7 million USD. Graphics systems, which in principle contribute the most turnover, suffered the strongest decline. AS CFO Ehud Ben-Yair explained, clients economized in this area in particular, postponing their investments. But this

holding back seems to be easing again, leading him to express strong optimism regarding the current second half year. Furthermore, he sees not

Chart: Orad-Hi-Tec: The price development, like the CFO's statements, point to growth!

only a stabilization of the industry, but a return of his company to a growth track. We therefore expect that Orad will again conclude the current second half similarly to the corresponding 2008 period. This would translate into a turnover of about 16 million USD and a net profit of about 1.4 million USD. For the total year this would mean a turnover of about 27 million USD and a net profit of about 1.8 million USD.

As readers know, our research also attaches great importance to companies earning money operatively in practice, and demonstrating a positive operative cash flow. A retrospective glance shows that in the past Orad has succeeded in generating money – 5 million USD in 2007 alone. After a slightly negative cash flow in the first half year, limited by the weak result, liquid resources are already about 1.5 million USD more than on the last target date, according to the CFO, and amount to more than 15 million USD. A glance at the balance sheet shows that Orad has no bank obligations, and that its equity ratio is a solid 60%.

At the current price of about 2.10 Euros on the bourse, Orad is worth about 23 million Euros or 34 million USD. If one deducts the non-required liquid resources, an enterprise value of about 20 million USD remains. If the current positive indications are corroborated, and should Orad already return to the growth track next year, (in which case a net result clearly above 3 million USD would easily be possible) the share currently reflects a P/E ratio of about 6, which is clearly too little for such a growth value. Calculating a P/E ratio of 10 for the coming year would give a fairer bourse value of 36 million Euros or 3.30 Euros per share, yielding a price potential of more than 50%.

However, we do not wish to conceal the potential danger of a further dollar devaluation. Since the share is denoted in Euros, but Orad draws up its balance sheet in dollars, the evaluation relations could shift - both positively and negatively - depending on the development of the currency rates.

Currently, the chart suggests an upward thrust. This raises an interesting speculation here, which we hedge with a stop price of 1.70 Euros.

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