

Photo Caption: Metropolis with beach. At the Israeli Stock Exchange, located in Tel Aviv, there are promising investments

Standing Firm Against the Breakers

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The young state has weathered the crisis better, on average, than most countries, and officially, is no longer a developing country. With a wealth of ideas, Israel wants to advance much further. Tech shares are profiting.

When aid convoys are seized, good news sinks quickly. Hence the world has hardly noticed Israel's economic ascent. Since last summer, the index-provider MSCI no longer refers to the country as an emerging, but rather as a developed market. Now, a few weeks ago, Israel was even accepted as a member of the Organization of Economic Development (OECD).

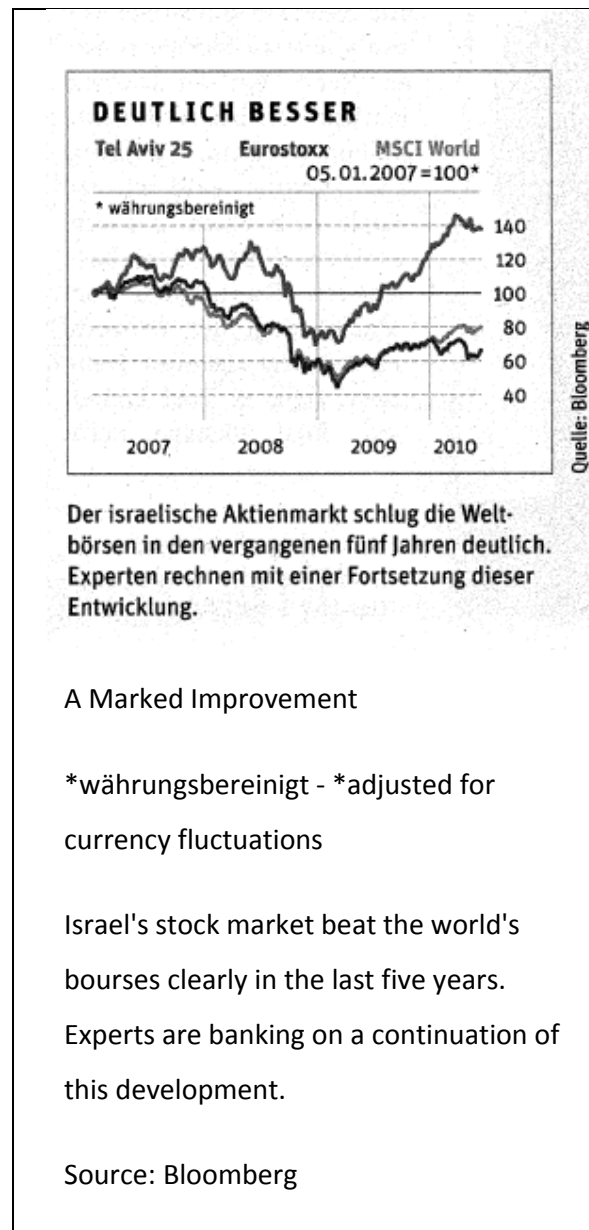
According to the Deutsche Bank, however, Israel continues to offer the expansion possibilities of an emerging market, despite its economic takeoff. The Bank of Israel

buttresses this view, forecasting economic growth of 3.7 percent for 2010. At the same time, the Mediterranean state is not starting from a clearly- lower level. During the 2009 crisis year it held its ground. While Germany's national economy shrank by 5%, Israel at least delivered a growth rate of 0.7%. One major difference: Neither economic programs nor bank rescue packages were necessary for this performance. Savings programs, which are a burden on private consumption, are not being envisaged in Israel. The country wants to advance much further in terms of Gross Domestic Product (GDP), where it presently holds the 30th place. Its aim is to forge ahead to 12th place in 20 years.

In doing so Israel cannot, rely, like, say Brazil or Australia, on the mining of raw material, but instead is dependent on its power of innovation. Ideas are plentiful: Israelis hold more patents per resident than all other nations - devices like the USB stick are just one example. Outside of Silicon Valley Israel has the highest concentration of high-tech companies (there are 4,000). More Israeli companies are listed on the NASDAQ technology stock exchange than European or Japanese. At 5%, the research expenditure share of GDP is unusually high. The continued cultivation of smart brains is being taken care of. The universities are regarded as among the best in the world. Every fifth Israeli has a university certificate. Percentage-wise, Israel has more engineers and scientists than all other nations.

The promising situation is reflected on the stock exchange. The TA-25 index, which tracks the prices of the shares of the 25 companies with the highest market capitalization, gained 25% in the past 12 months. "The Israeli stock exchange has developed better in the past five years than the S&P 50 and I think it will continue this way in the future, says Funds Manager Zsuzanna Szanto from CEROS Vermögensverwaltung¹ AG. The P/E Ratio of 16 corresponds to the long-term average. It hasn't reached the peak values of 2007 for a long time. Attacks are unfortunately part of everyday life and hardly play any role on the stock exchange. It would look different if seen conversely: Peace with the Palestinians would give the stock exchange a clear, upward boost. In this respect a positive surprise is possible at any time," says Szanto.

¹Assets Administration



Not least due to the omnipotent presence of the military, many Israeli companies have specialized in the security field. **Nice Systems** brings programs to the market that analyse restructured contents and facilitate monitoring. Digital recordings and archiving of data like telephone conversations are the cores of the solution.

Customers include **T-Mobile, the Eiffel Tower, Expo in Shanghai, the Indian Parliament** and American Express. Growth rates of 30% for many years to come should bring programmes that keep track of money laundering or other financial fraud. Business is being driven by strong compliance regulations. Nice is also profiting from the rising terror

threat. At the Ronald Reagan National Airport, a program was installed that makes video monitoring via the Internet easier. After the first quarter turned out better than expected. Nice jacked up its annual forecast considerably.

One may state with certainty that **Checkpoint Software** makes money. In matters relating to Internet security the company leads the world, providing solutions for all threats. Its well-known Internet Firewall ZoneAlarm, which derives from the pioneer Firewall, protects computers against viruses or spyware. The company also develops gateways, software which enables networks based on different protocols to communicate. Just how solid the business model is was shown during the crisis. The almost debt-free company increased sales volume and profit. The first quarter exceeded expectations. The cash flow was higher than before. There are more than two billion dollars in the cash till. The prospect for a hike in the annual forecast is good.

A somewhat smaller company with higher risk is **Orad High-Tec Systems**. The software manufacturer earns its keep with solutions for TV stations. Its palette includes viewing studios, graphics for sports transmissions and election reporting as well as 3D programs. Many Orad products are especially topical now because of the World Football Championship. During the analysis of football matches, 3D graphics models highlight players with the aid of the software, or trace their positions. In the medium term Orad profits from innovations like high-definition TV or the expansion of Internet TV. The current breakthrough of 3D technology, for which Orad compiles programs, also brings in sales. Following very good figures in the first quarter, the software blacksmith is on the right track for hiking turnover by 20% this year. Its cash position is about 14.6 million Euros amounting to half the capitalization. The P/E Ratio, at 9, is also attractive.

FIVE INVESTMENT IDEAS FROM ISRAEL

- 1) PE Ratio 2) in Euros; e = anticipated Source: Reuters, olwn estimates

BUY LOTS OF TECH AND A DASH OF PHARMA

Share	WKN Stock market earnings per share in \$P/E ratio ¹ Price on value (mill \$) (mill. €)				
	21.06.2010	2009	2010e	2011e	2011e
Orad Hi-Tec Systems					
Nice Systems					
Orad Hi-Tec Systems					
Teva Pharmaceut. Industries					

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Fund – Israel60 Plus:WKN; Fund Volume; Sales Charge; Management Fee p.a.; Price on 21.06.10; Performance

In million of Euros; The Funds; initiator ifs the Ceros Assets Administration

Source: Morningstar

A rewarding investment outside the tech world is Teva Pharmaceutical Industries. The share of the market leader in cheap pharmaceuticals has long-term potential. The debt crisis has made the prospects for cheap medications better than ever. Governments' pressure on patients to use cheaper copies is increasing. Due to its size alone, Teva is in a position to push generics into the market, thereby earning well precisely in the important, profit-bringing first-phase. Replenishment with new sources is being attended to. Until 2013, more medications than ever before will lose their patent protection. Teva closed the gap on the West European market by purchasing the German competitor Ratiopharm.

The Israelis are also getting involved in the market for biosimilars - generics for biological medications. They can afford the costly clinical studies and expensive production of the biological agents. Conversely, they are rewarded with unusually high prices for generics. For the medium term, Teva has set itself a clear growth goal. If earnings per share of 1.4 dollars were reached in 2004, the concern wants to deliver a

return of 7.2 dollars per share in 2015. The low PE Ratio does not yet reflect these steep growth rates.

Erich Gerbl