



## SHORE CAPITAL

### Orad Hi-Tec Systems\*+ (OHT) – Upgrading estimates – NR at 150p

Yr-end	Revenue	Rpt PBT	Net Profit	EPS	PER	EV/Sales	EV/EBITDA	BVPS	P/Book
Dec	(\$000)	(\$000)	(\$000)	(c)	(x)	(x)	(x)	(c)	(x)
2004A	15,728	(3,875)	(3,875)	(36.0)	(8.6)	1.8	(9.9)	105.6	2.9
2005A	15,401	(2,891)	(2,891)	(26.8)	(11.6)	1.8	(14.2)	78.9	3.9
2006A	17,719	636	636	5.9	52.7	1.3	29.5	85.2	3.6
2007F	22,500	1,725	1,725	15.8	19.6	0.9	11.6	100.4	3.1
2008F	26,000	2,810	2,810	24.4	12.7	0.7	5.9	119.6	2.6

Source: Orad, Shore Capital Stockbrokers. The company reports using US GAAP

**Orad reported strong Q3 2007 results on 12<sup>th</sup> November.** Revenues in Q3 2007 increased by 46% to \$6.1m from \$4.2m in Q3 2006, while revenues in 9M 2007 increased by 23% to \$16m from \$13.1m in 9M 2006 and \$17.7m in FY2006. The company is benefiting from strong demand for its High Definition (HD) products as well as increasing demand for its new line of on-air graphics products, which was released about 18 months ago. While HD broadcasting is still in the very early stages, most broadcasters plan for the future when ordering long-lived equipment and are demanding HD capabilities when buying new equipment.

**The on-air graphics product line has significantly increased the size of the potential target market for Orad** as, in addition to Orad's traditional market of providing graphics for real-time sporting events, it now targets numerous other real-time broadcasting programmes such as news reports, talk shows, weather reports and financial news and updates.

**Q3 2007 was the eighth consecutive quarter of profitability.** Gross margin in Q3 2007 was 64% compared with 62% in Q3 2006, mainly as a result of an increase in sales volumes and improved efficiencies, together with a different sales mix. However, this margin was lower than the average margin reported in H1 2007 of 69.4% and also lower than our estimate of 67%. Operating costs remained under control at \$3.5m and net profit rose to \$621,000 compared to \$54,000 in the same period last year and our estimate of \$470,000. Net profit for 9M 2007 improved by 137% year-on-year to c\$1.1m and the company's profits this year are already higher than the profit achieved in FY2006.

**We are upgrading our estimates for the next two years.** For 2007, we have raised our sales estimate from \$21.2m to \$22.5m and, even after lowering our gross margin estimate from 67.5% to 66% (to adjust for Q3 2007), our net profit estimate increases from \$1.5m to \$1.7m. The company reports using US GAAP and therefore it does not report a tax charge whilst it has accumulated losses (which according to management cover the expected profitability in 2008 and beyond).

**For 2008, given the strong momentum in the industry, we have raised our sales estimate from \$24.2m to \$26m** and we assume that the company will be able to maintain its gross margin at 66%. We allow for some competitive pressure to affect pricing but believe that the existing fixed cost base can support higher sales. Our net profit estimate increases from \$2.1m to \$2.8m and we expect diluted EPS of 24.4 cents, indicating a prospective PER of only 12.7x. The EV/Sales multiple is less than 1x and 2008F EV/EBITDA is 5.9x.

**Given the upgrades, we believe that the current share price weakness is unjustified.** In the first nine months of 2007 the company generated \$4m from operations, cash and cash equivalents (including restricted cash of c\$1m) rose to \$13.3m. With 10.8 million shares outstanding, Orad's market capitalisation is \$33.5m. We expect the cash level to continue to rise in 2008 to reach \$16.1m. After taking out the cash from the current market capitalisation and excluding the financial income (of \$600,000), the 2008F PER declines to just 7.9x (even after assuming an IFRS tax charge of 25%, this ratio would still be low at c10x).

\* Shore Capital Stockbrokers acts as broker and Shore Capital & Corporate acts as Nomad to Orad

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### Orad – P&L accounts (in \$000s)

Dec	2004	2005	2006	2007F	2008F
<b>Sales</b>	<b>15,728</b>	<b>15,401</b>	<b>17,719</b>	<b>22,500</b>	<b>26,000</b>
Cost of sales	(6,188)	(7,693)	(6,901)	(7,650)	(8,840)
<b>Gross profit</b>	<b>9,540</b>	<b>7,708</b>	<b>10,818</b>	<b>14,850</b>	<b>17,160</b>
Net R&D	(2,844)	(2,451)	(2,507)	(3,038)	(3,510)
Sales & marketing	(8,224)	(6,078)	(6,631)	(8,550)	(9,100)
General & Admin	(2,388)	(1,754)	(1,506)	(2,138)	(2,340)
Total operating costs	(13,456)	(10,283)	(10,644)	(13,725)	(14,950)
<b>Operating profit</b>	<b>(3,916)</b>	<b>(2,575)</b>	<b>174</b>	<b>1,125</b>	<b>2,210</b>
EBITDA	(2,825)	(1,952)	810	1,790	<b>2,925</b>
Net financials	189	(316)	467	600	600
	(3,727)	(2,891)	641	1,725	2,810
Other income	(148)	0	(5)	0	0
Pre-tax profit	(3,875)	(2,891)	636	1,725	<b>2,810</b>
Tax	0	0	0	0	0
Net income	(3,875)	(2,891)	636	1,725	2,810
Associates	0	0	0	0	0
<b>Group net income</b>	<b>(3,875)</b>	<b>(2,891)</b>	<b>636</b>	<b>1,725</b>	<b>2,810</b>
EPS (Diluted) in cents	(36.0)	(26.8)	5.9	15.8	24.4
No of diluted shares	10,756	10,781	10,823	10,900	11,500

Source: Orad, Shore Capital Stockbrokers. The company reports using US GAAP

### Orad – Financial ratios

	2004	2005	2006	2007F	2008F
Sales growth	1.9%	(2.1%)	15.1%	27.0%	15.6%
Gross margin	60.7%	50.0%	61.1%	66.0%	66.0%
Net R&D margin	18.1%	15.9%	14.1%	13.5%	13.5%
Sales & marketing margin	52.3%	39.5%	37.4%	38.0%	35.0%
General & Admin margin	15.2%	11.4%	8.5%	9.5%	9.0%
<b>Operating margin</b>	<b>(24.9%)</b>	<b>(16.7%)</b>	<b>1.0%</b>	<b>5.0%</b>	<b>8.5%</b>
Tax	0.0%	0.0%	0.0%	0.0%	0.0%
Net margin	(24.6%)	(18.8%)	3.6%	7.7%	10.8%
EV/Sales	1.8	1.8	1.3	0.9	0.7
EV/EBITDA	(9.9)	(14.2)	29.5	11.6	5.9

Source: Orad, Shore Capital Stockbrokers. The company reports using US GAAP

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