

UPDATE Equities | Israel

September, 08 2009

Recommendation:

BUY

Risk:

High

Actual Price: EUR 1,84

Fair Value: EUR 2,95

Potential: 60%

Sector: Technology
Segment: Media Software

Reuters Code: OHTG.F

Bloomberg Code: OHT GR

Home Page: www.orad.tv

Fiscal Year: December

Trading Data

High/Low 52w: EUR 3,04 - 1,15

Market Cap.: EUR 18,95 Mio

Shares outstanding: 10,82 Mio

Free Float: 55%

Price Chart



Financial Calendar:

November 2009
February 23rd 2010

Third quarter results 2009
First quarter results 2010

Date and Time of Stock Price
September, 8 2009, 10 am MEZ

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Please check Disclaimer and other Information on Page 3

Orad Hi-Tec Systems

Second quarter results 2009: Sales down but improvement in sight

Orad Hi-Tec Systems reported second quarter 2009 results on August 17th 2009. Numbers were still negatively impacted by the global economic crisis. Sales were USD 5,624 Mio., down 30% compared to the second quarter last year. In Q2 2009 gross profit was USD 3,924 Mio., a very good figure in our view. As already in the first quarter of 2009 gross profit margins were again very strong and came in at 70% (in 2008 gross profit margins were 67%). Very positive was the fact that the backlog has returned to its level in the same period last year.

Weak was the EBIT of USD 0,133 Mio., representing an operating profit margins of just 2,4% (in Q2 2008 operating profit margins were 12,5%). EBIT margins were weak as the company did not reduce substantially its research & development as well as sales & marketing costs. We are actually not too concerned about this. We rather prefer that the company is spending money on new products development as well as on marketing in order to generate new clients and gain market share than shortly sighted looking too much at current operating profit margins. In the longer run development and marketing expenses should pay off and operating margins should again improve.

Additionally the company could and did not heavily cut personal costs. Orad Hi-Tec is based in Tel Aviv and was not able to introduce "reduced hours" (as it was done heavily in Germany during the crisis). We rather find it intelligent not to lay off trained and experienced employees in the short run, as the management would have to hire back workers at a later stage, when the business improves. This would be more costly in our view.

Net income came in at USD 0,418 Mio., thanks to a positive financial income of USD 0,287 Mio. The company has a very comfortable amount of USD 13,27 Mio. in cash, which of course generates positive interest income.

Second half 2009: Improvement likely

With the strong backlog and increasing signs of a globally recovery we are pretty sure that sales in the second half of 2009 will be far better than in the first half. The product pipeline is full and Orad will attend several important fairs like the IBC in Amsterdam. There the company will for example introduce its real time stereo graphics solution.

We still believe in market share gains due to Orads very competitive product portfolio as well as Orads improved marketing success. On September 8th, 2010 the company announced that it has signed a contract with the Dutch premiere league delivering "virtuell advertisement" over the next four seasons (the contract is worth over USD 2 Mio.. in total).

Although maybe a little too aggressive, we stick to our full year sales target of USD 27 Mio. (minus 15% compared to fiscal year 2008). Operating profit margins should come in at 6%, but should improve step by step over the coming years. We expect double digit EBIT margins in 2011. Due to positive financial results and no taxes to be paid net margins should be slightly higher than EBIT margins.

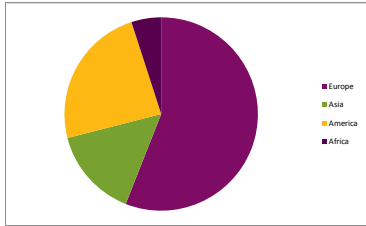
Current cash level of USD 13,2 Mio. is very comfortable and should enable the company to grow externally, if wished.

Target Price EUR 2,95 - Still a great bargain

Orads stock is still a bargain. With more than EUR 9,2 Mio in cash and no long-term debt the balance sheet looks more than solid. Our valuation model, which combines a dividend discount model with a peer group analysis suggests a fair value of EUR 2,95.

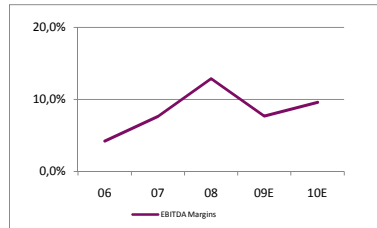
We recommend a purchase of the stock in particular to patient long term investors.

Sales Distribution 2008



Source: Orad Hi-Tec, VEM Aktienbank AG

EBITDA Margins Trends



Source: Orad Hi-Tec, VEM Aktienbank AG

Company Profile

The company was founded in Israel in 1993 and focuses on the development and the distribution of innovative technologies for TV broadcasting, virtual reality and sports events. Orad focuses on three segments. "Graphics" (graphic software), "Virtual Sets" (virtual studios) and "Sports" (graphic software for sports events). The company is active worldwide. Clients include companies like CCTV, Chinas biggest TV station, FOX, Turner, CBC, Deutsche Welle, PCCW, TV Globo. Edmond de Rothschild and the Cohanzick Fund hold more than 20% of the company. The biggest competitor is VIZRT.

Financials

Fiscal Year Ending Dezember 31

Profit & Loss	2006	2007	2008	2009E	2010E	Cash Flow Statement	2006	2007	2008	2009E	2010E
in Mio USD											
Sales	17,72	22,94	31,89	27,01	29,74	Net Income	0,64	1,78	3,43	1,78	2,59
Percentage change in %		29%	39%	-15,3%	10,1%	Amortisation	0,57	0,55	1,12	0,46	0,47
EBITDA	0,74	1,75	4,11	2,08	2,85	Changes in Working Capital	2,71	2,65	-2,70	-0,77	1,01
in % to Sales	4,2%	7,6%	12,9%	7,7%	9,6%	Cash flow from operative Business	3,91	4,97	1,85	1,47	4,08
EBIT	0,17	1,21	3,67	1,62	2,38	Capex	-0,17	-1,11	-0,53	-0,51	-0,57
in % to Sales	1,0%	5,3%	11,5%	6,0%	8,0%	Financial Investments	0,01	0,02	0,00	0,00	0,00
Net Profit	0,64	1,78	3,43	1,78	2,59	Free Cash Flow	3,75	3,89	1,32	0,96	3,51
in % to Sales	3,6%	7,7%	10,8%	6,6%	8,7%	Dividends	0,00	0,00	0,00	0,00	0,00
shares outstanding (in Mio)	10,82	10,98	11,02	10,96	10,96	Net Cash	3,75	3,89	1,32	0,96	3,51
EPS (reported)	0,06	0,16	0,31	0,16	0,24	Cash beginning of the year	5,34	9,09	12,98	14,30	15,27
						Cash end of the year	9,09	12,98	14,30	15,27	18,78

Balance Sheet	2006	2007	2008	2009E	2010E	Key Figures	2009E	2010E	2011E
in Mio USD									
Long Term Assets	2,55	3,10	3,32	3,25	3,35	P/E	11,3	7,8	5,5
Trade Receivables	3,78	3,11	5,15	4,06	4,37	EV/Sales	0,2	0,2	0,2
Inventories	2,70	2,92	2,65	3,24	2,97	P/B	1,4	1,2	1,1
Cash	9,66	14,05	14,76	16,34	19,85	Dividend Yield	0,0%	0,0%	0,0%
Equities	9,22	11,11	14,74	16,32	18,91	ROE	10,9%	13,7%	16,3%
Provisions	1,50	1,95	2,21	1,88	2,06	ROIC	7,6%	9,7%	11,8%
Liabilities	5,44	6,12	7,83	6,94	7,02	Equity Ratio	100%	100%	100%
Deferred Income	1,84	2,28	1,97	1,67	1,84	Tax Rate	0%	0%	0%

Orad Hi-Tec, VEM Aktienbank AG

SWOT Analyse

Strengths

- Innovative and high quality product line makes the company very competitive
- Global presence enables the company to target existing and potential clients all over the world
- Strong management team with long-term experience guarantees successful company vision

Weaknesses

- Sparse recurring business and just marginal income from services makes it necessary to acquire constantly new clients
- Optimized distribution structure has to give prove to sell successfully in the long run
- Regulatory issues in regards to airtime in several countries can limit sales growth

Opportunities

- Constantly changing media environment (like the transition from SD to HD) forces TV companies to invest in innovative products
- Own research department is searching for new applications and new products
- Comercialization of IPTV will lead to an increase number of TV stations and therefore an increased demand for Orad products

Threats

- Global economic weakness has a negative effect on investment spending by TV stations.
- Relatively high US currency dependency leads to volatile sales as well as profit development
- Fast changing technologies and standards make a quick and innovative new product development necessary

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Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
11.06.2008	EUR 2,67	Buy	EUR 4,17
19.08.2008	EUR 2,72	Buy	EUR 4,65
14.03.2009	EUR 1,72	Buy	EUR 3,70
18.06.2009	EUR 1,80	Buy	EUR 2,95

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Company	Disclosure
Orad Hi-Tec	2;6;12

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This financial analysis is based on public available information (Company presentations, Annual Reports, Quarterly Reports, Press Information, prospectus, ad-hoc announcements etc.). Moreover, management interviews for more detailed information about the current business development were held with the company.

Summary of the valuation methods and principles applied in the preparation of the financial analysis:

The valuations underlying the ratings of the securities analysed by VEM are based on generally accepted and widely used methods of fundamental valuation, such as DCF model, Peer group comparison, NAV valuation and - where applicable - a Sum-of-the-parts model.

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- BUY: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is at least + 10 %.
- HOLD: The expected return (composed of the projected change of the share price and the anticipated dividend yield) ranges from - 10 % and + 10 %.
- SELL: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is worse than - 10 %.

For further important details concerning the valuation methods applied in the preparation of this analysis, the meaning of the specific investment recommendation (including the recommended investment period, the risks associated with the investment and the sensitivity of the valuation parameters) please see the Section "Valuation" in this analysis.

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Additional important information:

Date of first publication of this analysis by VEM : September 8, 2009

Date and Time of relevant Share Price (see first page): September 8, 2009, 10 A.M. CEST

A schedule for an update of this Analysis is not appointed yet. VEM reserves the right to update any individual analysis without prior notice.