

Update

Equities - Israel

August 6th, 2014

Rating: **Buy**
Risk: High
Current Price: EUR 1.81
New Price Target: EUR 3.00

Sector: Technology

Reuters Code: OHTG.F
Bloomberg Code: OHT GR

Internet Page: www.orad.tv
Fiscal Year Ending: December

Trading Data

Price High/Low 52w: EUR 1.95 - 1.00
Market Capitalisation: EUR 21.73m
Shares Outstanding: 11.75m
Free Float: 37%

Price Chart



Financial Calendar

November 2014 Release of Q3 2014

Date and Time of Prices
August 06, 2014 10:00 (CET)

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Please take a note of the Disclaimer and other Information on Page 3



Orad Hi-Tec Systems

Q2 2014 - Very good Results

We call it official: Orad's success story is back. The company reported outstanding Q2 2014 results. Sales gained a very strong 40.7% compared to Q2 2013, reaching USD 10.2m. High sales were generated around the globe. Especially strong were Latin America (Brazil) as well as traditional markets like Europe, where a turnaround could be experienced. In particular high demand were Graphics and Solutions. Virtual studio orders were lower but compensated by the success of PowerWalls. As already mentioned the German "Tagesschau" is airing now from a new studio using Orad' technology; in detail a 17 meters long PowerWall. This flagship project had already positive effects on new order inflows. Just recently the company has announced a new order by a leading US TV station of "TD Control", which is going to control video as well as monitor walls. Order size was USD 500k. Another major order announcement was the USD 500k order of the Graphics System Invictus by a North American Sports Agency.

Q2 2014 profits were convincing as well. Q2 2014 gross margins reached a very high level of 69.3% (Q2 2013: 62.5%). Operating income was USD 0.9m, which is equal to an EBIT margin of 8,8%. In Q2 2013, the company still generated a loss.

Cash at the end of June 2014 was at a good USD 7.6m, USD 1,2m higher than in March 2014.

No negative Effect of Gaza Conflict

So far the Gaza conflict had no negative effect on the production or product delivery, so the management. The fast majority of clients is based outside Israel and we doubt that orders might be post-poned or cancelled for political reasons.

Strong 2014 and 2015 expected

Backlog is strong, so is order inflow. Very good growth in 2014 as well as 2015 should be generated around the globe. North and South America are expected to do well in particular. Video servers, Media Asset Management, PowerWalls and Solutions should lead the demand in the coming years.

We are once again raising our 2014 sales growth expectation to 25% (old +15%) compared to 2013, resulting in 2014 sales of USD 39,78m. For 2015 we expect a continuation of high demand and calculate with estimated sales of USD 45.74m, equal to a plus of 15% compared to 2014.

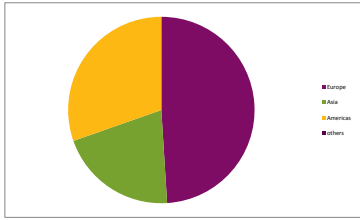
Margin improvement should continue and we expect the company to achieve an operating profit of USD 2,78m, which is equal to an EBIT margin of 7%. In 2015 EBIT margins should expand to 9% due to an ongoing productivity improvement.

New price target EUR 3.00

Due to the again better outlook we are increasing our price target from EUR 2.30 to EUR 3.00

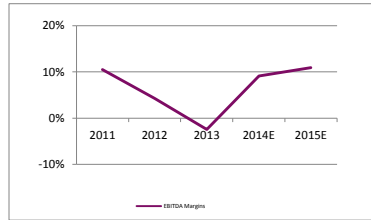
Our BUY recommendation remains.

Sales Distribution



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. One of the biggest competitors is the Belgium EVS.

Financials

Financial Year Ending December 31

Profit & Loss						Cash Flow Statement			
	2011	2012	2013	2014E	2015E		2013	2014E	2015E
in m USD									
Sales	35,34	35,04	31,82	39,78	45,74	Net Income		2,78	4,12
Percentage change in %		-1%	-9%	25%	15%	Amortisation		0,85	0,89
EBITDA	3,71	1,50	-0,79	3,63	5,01	Changes in Working Capital		1,21	-0,36
in % to Sales	10,5%	4,3%	-2,5%	9,1%	10,9%	Cash flow from operative Business	-0,87	4,85	4,65
EBIT	3,11	0,73	-1,60	2,78	4,12	Capex	-0,49	-1,02	-1,07
in % to Sales	8,8%	2,1%	-5,0%	7,0%	9,0%	Financial Investments	0,00	-0,84	0,76
Net Profit	3,38	1,24	-1,93	2,78	4,12	Free Cash Flow	-1,36	2,99	4,35
in % to Sales	9,6%	3,5%	-6,1%	7,0%	9,0%				
shares outstanding (in m)	11,20	11,29	11,29	11,29	11,29	Cash beginning of the year	7,09	5,74	8,73
EPS (reported)	0,30	0,11	-0,17	0,25	0,36	Cash end of the year	5,74	8,73	13,08
Balance Sheet						Key Figures			
	2011	2012	2013	2014E	2015E		2014E	2015E	
in m USD									
Assets	6,43	5,70	5,67	5,23	5,40	P/E	9,7	6,6	
Trade Receivables	8,51	9,90	10,18	9,84	11,21	EV/Sales	0,48	0,42	
Inventories	3,65	3,61	3,55	3,98	4,57	P/B	2,1	1,9	
Cash	11,65	7,09	5,74	8,73	13,08				
Equities	17,75	15,45	13,62	14,96	19,84	ROE	18,6%	20,7%	
Provisions	2,12	0,90	0,96	1,20	1,38	ROIC	11,3%	13,5%	
Liabilities	7,47	8,42	8,79	9,67	10,76	Equity Ratio	100%	100%	
Deferred Income	3,22	1,57	1,80	2,25	2,58				
							Tax Rate	0%	0%

Orad Hi-Tec, VEM Aktienbank AG

SWOT Analysis

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 constantly acquire new clients/projects
- Regulatory issues with regards to airtime in several countries can limit sales growth

Opportunities

- Constantly changing media environment (like 3D on TV) forces TV companies to invest in innovative products
- Own research department is searching for new applications and new products
- Commercialization of IPTV will lead to an increased number of TV stations and therefore an increased demand for Orad products

Threats

- 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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Summary of VEM's recommendations over the last 12 month concerning the securities of the company being subject of this analysis

Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
18.05.2010	EUR 2.58	Buy	EUR 4.90
16.08.2010	EUR 2.60	Buy	EUR 4.90
04.11.2010	EUR 2.50	Buy	EUR 4.50
02.03.2011	EUR 2.65	Buy	EUR 4.10
23.05.2011	EUR 2.41	Buy	EUR 3.80
17.08.2011	EUR 2.34	Buy	EUR 3.80
25.11.2012	EUR 2.36	Buy	EUR 3.80
01.03.2012	EUR 2.53	Buy	EUR 3.80
29.05.2012	EUR 2.33	Buy	EUR 3.80
16.08.2012	EUR 2.41	Buy	EUR 3.80
15.11.2012	EUR 2.17	Buy	EUR 3.20
20.02.2013	EUR 1.65	Buy	EUR 2.50
21.05.2013	EUR 1.66	Buy	EUR 2.20
04.09.2013	EUR 1.02	Buy	EUR 1.72
13.11.2013	EUR 1.44	Buy	EUR 1.72
13.03.2014	EUR 1.6	Buy	EUR 2.30
15.07.2014	EUR 1,84	Buy	EUR 2.30

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Company
ORAD High-Tec Systems

Disclosure
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- The persons and/or enterprises mentioned above expect or aim, within the next 3 month, for fees, allowances or payments of any other kind for investment banking services from the issuer that is, or whose financial instruments are, the subject of this financial analysis.
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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. VEM applies an absolute equity rating system with 3 grades. Each grade complies with following expectations (Ratings refer to time period of 6 months):

- 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: August 06th 2014
Date and Time of relevant Share Price (see first page)

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