

Camtek (CAMT - \$3.75 - Buy)

Price Target Change
Estimate Change

COMPANY NOTE

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Sales and trading 7 a.m. to 7 p.m. ET, (646) 465-9090

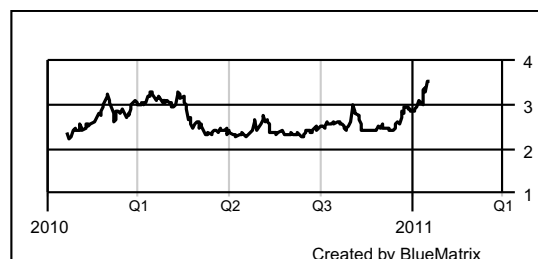
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Stock Data		01/19/11
Price		\$3.75
52 Week Range		(\$2.14 - \$3.85)
Price Target		\$4.25
Prev Price Target		\$3.50
Market Cap (mil)		\$109.50
Shares out (mil)		29.20
3-Mo Avg Vol		42,611
Cash per share		\$0.27
Total Debt (mil)		\$1.67
Debt/Equity		3%
Dividend Yield		NM

EPS (\$)						
Yr Dec	2009A		2010E		2011E	
	Actual	Curr	Prev	Curr	Prev	
Mar	(0.02)	0.00A	—	0.08	0.07	
Jun	(0.07)	0.05A	—	0.10	0.08	
Sep	(0.01)	0.09A	—	0.11	0.09	
Dec	0.02	0.09	0.07	0.14	0.12	
YEAR	(0.24)	0.22	0.20	0.43	0.35	
P/E	(15.6)x	17.0x	—	8.7x	—	

Revenues (\$ millions)						
Yr Dec	2009A		2010E		2011E	
	Actual	Curr	Prev	Curr	Prev	
Mar	9.3	17.6A	—	23.9	22.9	
Jun	12.5	20.8A	—	25.2	24.1	
Sep	14.5	23.9A	—	26.6	25.5	
Dec	17.2	24.0	23.0	28.9	27.6	
YEAR	53.5	86.3	85.3	104.5	100.1	

One year price history CAMT



Strength in Semis and PCBs; Raising Price Target to \$4.25; Reiterate Buy

Strength in PCBs driven by smartphones and tablet PCs. Several Taiwanese PCB manufacturers including Unimicron Technology, Compeq Manufacturing, Unitech Printed Circuit Board and Wus Printed Circuit are reporting strong Q4:10 results and expecting the typical seasonality in Q1:11 to be mitigated by continued strength in smart phone and tablet PC shipments. We note Unimicron is a key customer of Camtek and believe Camtek could benefit from the strength at its customers which include Tripod Technology Group (3044.TW-Not Rated), Mustek (2361.TW-Not Rated), CMK Corporation, Via Systems and Sanmina (SANM-Not Rated) among others.

Strong Semiconductor sales bodes well for Camtek. During Q4:10, we witnessed meaningful growth in semiconductor markets and several of Camtek's customers - Texas Instruments (TXN-Not Rated), Samsung (SSNLF-Not Rated), SMIC (SMI-Not Rated), ST Microelectronics (STM-Not Rated), NXP, Toshiba (TOSBF-Not Rated), Micron (MU-Not Rated), UMC (UMC-Not Rated) and TSMC (TSM-Not Rated) among others are all investing aggressively as they prepare for continued growth in FY:11. As such, we believe CAMT's Q4:10 revenues could come in at high end of guidance and they could guide for flat to modest revenue declines in Q1:11 when they report on results on Feb 22.

Raising estimates. We are taking Q4:10 revenues and non-GAAP EPS to \$24 million and \$0.09 from \$23 million and \$0.07. The company had guided for Q4:10 revenues of \$22 - \$25 million. We are taking our FY:11 revenues and non-GAAP EPS to \$104.5 million and \$0.425 from \$100 million and \$0.35 respectively.

Raising Price Target to \$4.25. We had initiated on CAMT in June 2010 when the stock was \$2.30. Despite the ~50% appreciation in the stock, we believe there exists further upside from these levels. Trading at 8x FY:11 earnings, we view CAMT to be undervalued. Despite the hangover on the stock from the pending lawsuit with Rudolph Technologies (RTEC-Not Rated), we would recommend investors put new money to work on CAMT ahead of its earnings on Feb 22.

We are reiterating our Buy rating on CAMT with new 12 month price target of \$4.25.

Valuation:

Keeping fair value metric at 10x FY:11 earnings, our price target goes to \$4.25. Trading at 8.2x FY:11 earnings, we view CAMT to be undervalued.

We are maintaining our Buy rating on CAMT with new 12 month price target of \$4.25..

Risks to achievement of target price:

Cyclical consumer industry: The PCB and semiconductor industries remain cyclical in nature, and have experienced periodic downturns, most recently in the last three years. As Camtek relies on continued capital investments by manufacturers of bare and assembled PCBs and chipmakers, it may be negatively affected in a general economic slow-down, when the availability of capital resources for investment, particularly in the computer, television or telecommunications industries, is reduced.

Poor market penetration in new products: Camtek faces substantial competition from established companies in most of its target markets. Some of the competitors have greater financial, engineering, manufacturing & marketing resources, broader product offerings & service capabilities and a large customer base. However, its installed base of 2,400 systems and diverse customer base of leading PCB and semiconductor manufacturers worldwide provide comfort.

Primary base in Israel: Camtek's headquarters and primary research, development and production facilities are located in Israel. As such, it is directly influenced by political, economic and military conditions affecting Israel. Any major hostilities involving Israel, a substantial decline in the prevailing regional security situation or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on its operations. In addition, the company benefits from certain Israeli government programs and tax legislation, particularly regarding its production facilities in Israel. The loss of such benefits could have a material adverse effect on the company's business, financial condition and results of operations. Moving its production facility to China and operating through subsidiaries in eight countries mitigates this risk to some extent.

Technological Obsolescence: Camtek's customers operate at the cutting edge of technology. To keep pace Camtek has to invest heavily in R&D and its products face technological obsolescence at a faster rate. Inability to keep pace may leave a pileup of obsolete products in inventory that would have to be written off and affect revenue and profitability significantly.

Company description:

Camtek develops, manufactures and markets automated optical inspection (AOI) systems and related products. AOI systems are used for detecting defects in electronic components that originate during the manufacturing process. Camtek's products are used by printed circuit board (PCB), integrates circuits (IC) substrate, and semiconductor manufacturing and packaging industries. Camtek is R&D intensive with its R&D group responsible for the modular and software-intensive architecture of Camtek systems, which enables flexible adaptation to customer-specific road maps. With headquarters in Migdal Haemek, Israel, Camtek employs around 487 people.

Camtek primarily operates through its subsidiaries in the US, Europe, Japan, China, Hong Kong, Taiwan, Korea and Singapore. It has sold more than 2,400 AOI systems in over 33 countries around the world, serving the majority of the largest 100 PCB manufacturers worldwide, as well as leading semiconductor manufacturers and subcontractors.

Incorporated in 1987, Camtek went public on NASDAQ in 2001. Camtek acquired assets of Printar Ltd. in May 2009, an Israeli company engaged in developing, manufacturing, sale and marketing of direct digital material deposition systems and inks for the PCB industry. Camtek has purchased all of Printar's assets, knowledge, technology and IP rights related to the acquired business of Solder Mask (SM), an epoxy layer selectively covering the PCB, while leaving the connecting pads uncovered. In consideration for the purchase, Camtek has agreed to pay Printar a total consideration of up to \$2.5 million with an initial payment of \$0.5 million and an additional total amount of \$2.0 million subject to achieving certain agreed conditions by May 2011.

In Nov 2009, Camtek acquired SELA, engaged in the development, manufacturing and marketing of automated SEM (Scanning Electron Microscope) and TEM (Transmission Electron Microscope) sample preparation equipment. SELA has more than 275 systems installed worldwide. In consideration for the shares, Camtek will pay to SELA's shareholders future payments aggregating up to \$9.5 million, contingent upon SELA's revenue. SELA had 26 employees and revenue of \$3.8 million and \$4.4 million in FY:08 and FY:07, respectively.

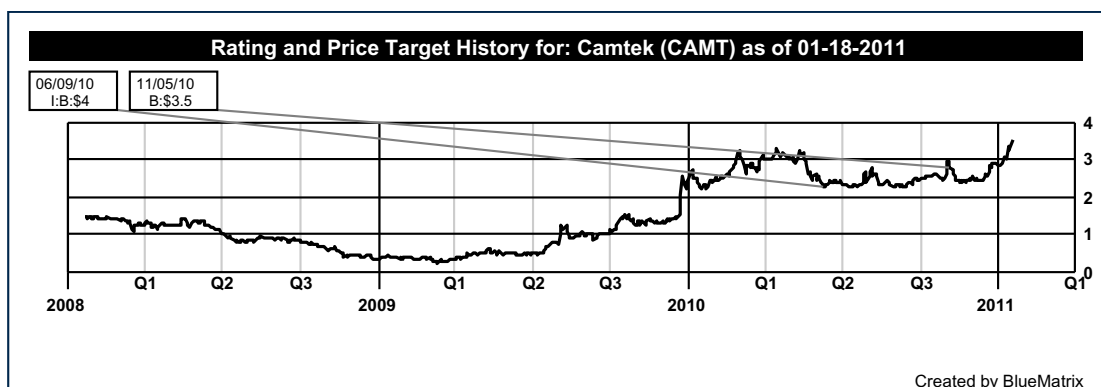
Camtek - Income Statement (US\$ in Millions)												
	2008	2009	Mar Q1:10	Jun Q2:10	Sep Q3:10	Dec Q4:10E	2010 E	Mar Q1:11E	Jun Q2:11E	Sep Q3:11E	Dec Q4:10E	2011 E
Revenue	75.5	53.5	17.6	20.8	23.9	24.0	86.3	23.9	25.2	26.6	28.9	104.5
% Change	6.3%	-29.1%	2.4%	18.0%	15.0%	0.4%	61.3%	-0.6%	5.6%	5.6%	8.4%	21.1%
Cost of Goods Sold	43.2	32.4	10.3	11.7	13.0	13.0	48.1	13.0	13.8	14.5	15.7	57.0
% of revenue	57.2%	60.6%	58.6%	56.5%	20.0%	54.2%	55.7%	54.5%	54.8%	20.0%	54.4%	54.5%
Gross Profit	32.3	21.1	7.3	9.1	10.9	11.0	38.2	10.9	11.4	12.1	13.2	47.5
Gross Margin	42.8%	39.4%	41.4%	43.5%	45.6%	45.8%	44.3%	45.5%	45.2%	45.5%	45.6%	45.5%
Operating Expenses:												
S&M Expenses	12.8	10.3	3.1	3.1	3.1	3.2	12.5	3.2	3.2	3.3	3.3	13.0
% of revenue	17.0%	19.3%	17.5%	15.1%	12.9%	13.3%	14.5%	13.4%	12.7%	12.4%	11.4%	12.4%
G&A Expenses	24.6	16.7	4.3	4.4	4.9	5.0	18.7	5.0	5.0	5.2	5.2	20.4
% of revenue	32.5%	31.3%	24.4%	21.4%	20.6%	20.8%	21.6%	21.0%	19.8%	19.5%	18.0%	19.5%
Total Operating Expenses	37.4	27.1	7.4	7.6	8.0	8.2	31.2	8.2	8.2	8.5	8.5	33.4
% of revenue	49.5%	50.6%	41.9%	36.4%	33.5%	34.2%	36.1%	34.4%	32.5%	31.9%	29.5%	32.0%
Operating Income (Loss)	(5.1)	(6.0)	(0.1)	1.5	2.9	2.8	7.0	2.7	3.2	3.6	4.7	14.1
Operating Margin	-6.7%	-11.1%	-0.5%	7.1%	12.0%	11.7%	8.1%	11.2%	12.7%	13.6%	16.1%	13.5%
Interest and Other, Net	1.0	(0.8)	0.2	0.0	(0.2)	0.1	0.1	0.1	0.1	0.1	0.1	0.4
Net Income Before Taxes	(4.1)	(6.7)	0.1	1.5	2.6	2.9	7.2	2.8	3.3	3.7	4.8	14.5
Income Tax	0.8	0.4	0.1	0.2	0.1	0.3	0.6	0.3	0.3	0.4	0.5	1.5
Tax rate (%)	-19%	-6%	81%	11%	3%	10%	9%	10%	10%	10%	10%	10%
Other	(4.7)	(4.7)	1.0	0.7	0.6	1.0	3.2	1.0	1.0	1.0	1.0	4.0
Net Income	(4.8)	(7.1)	0.0	1.4	2.6	2.6	6.5	2.5	3.0	3.3	4.3	13.1
Net Income (GAAP)	(9.6)	(11.8)	(0.9)	0.7	2.0	1.6	3.3	1.5	2.0	2.3	3.3	9.1
Net Margin	-6.4%	-13.3%	0.1%	6.5%	10.7%	10.9%	7.5%	10.4%	11.8%	12.5%	14.8%	12.5%
EPS	(0.16)	(0.24)	0.00	0.05	0.09	0.09	0.22	0.08	0.10	0.11	0.14	0.42
EPS (GAAP)	(0.32)	(0.41)	(0.03)	0.02	0.07	0.05	0.11	0.05	0.06	0.08	0.11	0.30
Average shares o/s (millions)	29.9	29.2	29.2	30.1	30.0	30.2	29.9	30.5	30.7	30.8	31.0	30.8

Source: Company reports and Chardan Capital estimates.

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18-Jan-11

Camtek - Balance Sheet (US\$ in millions)					
	Sep	Dec	Mar	June	Sep
	Q3:09	Q4:09	Q1:10	Q2:10	Q3:10
ASSETS					
Cash and equivalents	13.80	15.80	16.22	14.14	7.98
Accounts receivable	16.48	18.71	20.53	25.72	30.81
Inventories	14.33	14.18	14.31	16.56	20.99
Due from affiliates	0.41	0.34	0.38	0.13	
Other current assets	1.57	1.69	1.77	1.82	2.89
Deferred tax assets	0.04	0.04	0.07	0.07	0.07
Total Current Assets	46.64	50.76	53.28	58.43	62.74
Property and Equipment, net	15.75	15.39	15.23	15.26	15.00
Long term inventory	8.06	4.66	4.31	3.54	2.60
Deferred tax assets	0.13	0.13	0.10	0.10	0.10
Other assets, net	4.80	0.46	0.46	0.46	5.64
Intangible assets		9.02	7.99	7.95	7.88
Total Assets	75.38	80.42	81.37	85.74	93.95
LIABILITIES					
Short term loans					0.68
Accounts payable	3.42	4.49	5.93	8.86	11.54
Due to affiliates					0.03
Convertible loan- current portion	1.67	1.67	1.67	1.67	
Other liabilities	10.97	12.95	14.20	14.98	18.18
Total Current Liabilities	16.06	19.11	21.79	25.51	30.43
Long term debt					0.87
Liability for employee severance	0.28	0.49	0.52	0.48	0.57
Other long term liabilities	4.03	9.81	8.94	9.14	9.44
Total Liabilities	20.36	29.40	31.26	35.13	41.31
SHAREHOLDERS' EQUITY	75.38	51.02	50.12	50.62	52.65
Total Liabilities & Equity	95.74	80.42	81.37	85.74	93.95
Current Ratio	2.9x	2.7x	2.4x	2.3x	2.1x
Quick Ratio	2.0x	1.9x	1.8x	1.6x	1.4x
Working Capital	30.6	31.7	31.5	32.9	32.3
DSO	102.3	97.8	104.8	111.3	116.0
Inventory Turns	0.6	0.7	0.7	0.7	0.6
Book Value per Share	2.58	1.75	1.71	1.68	1.75
Cash per Share	0.47	0.54	0.55	0.47	0.27
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Important Research Disclosures



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [BUY]	30	73.20	5	16.67
HOLD [NEUTRAL]	8	19.50	0	0.00
SELL [SELL]	3	7.30	0	0.00
NOT RATED [NR]	0	0.00	0	0.00

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