

Grande West Transportation

US Manufacturing Agreement more than Quintuples Target Market. Upping PT to \$4.05/Shr.

BUS-TSXXV: \$3.30
Speculative Buy
\$4.05 Target ↑ (prev. \$3.00)

Grande West Transportation (“Grande West”, “BUS”, or “the Company”) announced yesterday that it has secured a manufacturing agreement to produce Vicinity buses in Atlanta, Georgia, that meets FTA Buy America requirements. We had previously noted that a successful entry into the US transit market could see our target price substantially increase (see our December 22, 2016 note). With a recent financing in hand, best-in-class Altoona test results, and a fully fledged US entry confirmed, we are upping our estimates to reflect the new market opportunity. Our target price moves to \$4.05/shr from \$3.00/shr.

With the stock price up 358% since our September 2015 initiation, we remain positive about the long-term prospects of the Company. **With Grande West, we have consistently referenced our scenario analysis pointing to catalysts that would support prospective, positive recalibrations of our forecasts and in turn our PT. With positive line of sight to a larger target market, we view this as such a time.**

US manufacturing agreement increases target market more than fivefold: The Company secured “Buy America” certification in December, allowing it to market its buses to federally funded transit authorities south of the border. To this effect, yesterday the Company announced a contract manufacturing agreement with ABG. Under the terms of the agreement, the Company will sell the buses directly to ABG, who in turn will be responsible for selling the final product to clients at a markup.

We expect the Vicinity to gain traction in the US transit market (as observed with the recent announcement of a 10 bus order by MARTA (Atlanta)); as transit agencies look to maximize efficiencies (and “right size” their fleets), demand for an alternative smaller bus is increasing. **We estimate the US market to be 5 to 10 times larger than its Canadian counterpart.**

Smaller vehicles are ideal outside of peak hours and in low volume routes. We believe this category is a new market segment altogether that will eat away share from the less efficient cutaway vehicles and larger 40-foot buses. We estimate that the Vicinity is 47% cheaper to operate on a per passenger basis compared to cutaway shuttles. When compared to 40-foot buses at a 50% load factor, we estimate that the Vicinity is 34% cheaper to operate on a per passenger basis.

Estimate and target price revisions: We are revising our estimates to reflect the anticipated traction in the US market. We are now calling for 300 buses to be sold in 2018, up from our previous forecast of 248. For 2019, we expect acceleration of traction and estimate BUS to sell 440 buses, up from 300 buses. We are calling for \$12.0M in EBITDA in 2018 and \$19.8M in 2019 (see page 2). **We await confirmation of traction and keep close watch at the speed of adoption in the US market before being more constructive with our estimates.**

We derive our valuation using a discounted cash flow (DCF) analysis using a 12.0% discount rate and a 4.5% GRIP. We are revising our target price to \$4.05/shr, implying a 22.7% return from current levels.

Projected Total Return: 22.7%
Valuation: DCF (12.0% discount;
4.5% GRIP)

Market Data

Market Capitalization (Diluted)	250.5
Net Debt	5.7
Enterprise Value	256.2
Basic Shares O/S (pro forma)	66.1
Fully Diluted Shares O/S (TSM)	75.9
Avg. Daily Volume (K)	542.0
52 Week Range	\$0.46 - \$3.45
Dividend Yield	0.0%

Revisions (\$K)

	Current	Old
2018E Bus / Parts Revenues	106,577	88,255
2018E EBITDA	12,024	10,207
2018E EPS	\$0.12	\$0.14

Financial Metrics (\$K)

FYE - Dec 31	F2016*	C2017	C2018
Bus / Parts Revenues	5,093	57,470	106,577
EBITDA	-3,454	4,378	12,024
EPS	-0.08	0.04	0.12

*Fiscal year ended Aug 31

Valuation Data

FYE - Dec 31	F2016*	C2017	C2018
EV/Bus / Parts Revenues	50.3x	4.5x	2.4x
EV/EBITDA	NA	58.5x	21.3x
P/E	NA	80.2x	26.9x

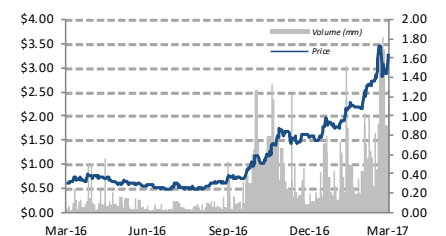
*Fiscal year ended Aug 31

Quarterly Data (\$K)

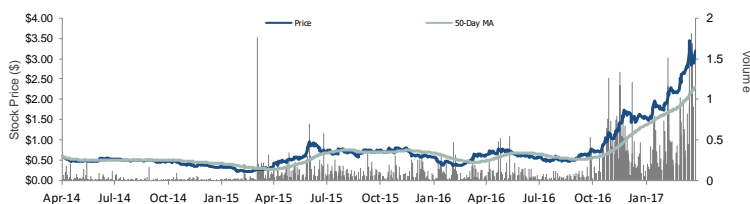
	Q1	Q2	Q3	Q4
Bus / Parts Rev. '17	10,482	14,750	16,096	16,142
Bus / Parts Rev. '18	26,538	26,609	26,680	26,751
EBITDA '17	568	1,145	1,328	1,337
EBITDA '18	2,987	3,000	3,013	3,025
EPS '17	0.00	0.01	0.01	0.01
EPS '18	0.03	0.03	0.03	0.03

Company Description

Grande West Transportation focuses on the manufacturing, marketing, and selling community shuttle buses. It sells its products under the Vicinity brand name in North America. Grande West Transportation Group Inc. was founded in 2008 and is headquartered in Aldergrove, Canada.



Grande West Transportation Group Inc (BUS-T, \$3.30) - Data Sheet



Company Description

Grande West is a Canadian bus manufacturer who designs, engineers and manufactures Vicinity buses. Grande West has set itself apart from others with the Vicinity bus – a heavy duty mid-size, community transit bus now in operation in many municipalities across Canada. The Company was founded in 2008 and is headquartered in Aldergrove, Canada.

Consensus	3 Mths Ago	Current	Return
Rating:	NA	NA	
Target:	NA	NA	NA
Median:	NA	NA	NA
High:	NA	NA	NA
Low:	NA	NA	NA
Consensus Distribution			
Sector Outperform/Buy			NA
Sector Perform/Hold			NA
Sector Underperform/Sell			NA
# Estimates			0

Key Financial Metrics

Financial Summary	F2016	Q117E	Q217E	Q317E	Q417E	C2017E	C2018E	C2019E
Bus and Part Revenues (\$K)	5,093	10,482	14,750	16,096	16,142	57,470	106,577	157,041
Cons.	NA	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA	NA
Gross Profit (\$K)	514	1,615	2,273	2,481	2,489	8,858	18,286	26,951
Margin	10.1%	15.4%	15.4%	15.4%	15.4%	15.4%	17.2%	17.2%
Cons.	NA	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA	NA
EBITDA (\$K)	-3,454	568	1,145	1,328	1,337	4,378	12,024	19,814
Margin	-67.8%	5.4%	7.8%	8.3%	8.3%	7.6%	11.3%	12.6%
Cons.	NA	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA	NA
Diluted EPS	-0.08	0.00	0.01	0.01	0.01	0.04	0.12	0.21
Cons.	NA	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA	NA

Key Statistics

Key Statistics	Value
52-Week High	\$3.45 5%
52-Week Low	\$0.46 (86%)
Avg Vol (3-Mo)	542k
Shares Outstanding (TSM Method)	75.9
Market Cap	\$250.46
Net Debt	\$5.73
Enterprise Value	\$256.19
Div Yield	0.0%
FYE	31-Dec
Employees	13

Top Ownership

Top Ownership	M Shares	Δ 6 Mths	% Held
Miller, Joseph	5.05	0.00	6.6%
Trainer, William R.	2.85	0.00	3.8%
Tractorhill Sales Ltd.	0.40	0.00	0.5%
Devin, Yves	0.18	0.00	0.2%
Landry, Jean-Marc	0.11	0.00	0.1%
Chickasaw Capital Managem	0.00	0.00	-

Key Metrics	F2016	Q117E	Q217E	Q317E	Q417E	C2017E	C2018E	C2019E
Number of buses sold	16	32	45	49	49	175	300	440
Price/bus	299,579	325,000	325,000	325,000	325,000	325,000	350,000	350,000
Total bus sales (\$K)	4,793	10,400	14,625	15,925	15,925	56,875	105,000	154,000
Parts sales (\$K)	300	82	125	171	217	595	1,577	3,041
Buses (% sales)	94%	99%	99%	99%	99%	99%	99%	98%
Parts (% sales)	6%	1%	1%	1%	1%	1%	1%	2%

Comparables and Peer Analysis	1 Week	1 Month	Return 3 Month	YTD	1 Year	Market Cap C\$	EV C\$	EV / EBITDA LTM	Price/Earnings LTM	Net Debt / EBITDA	ROE	LTM EBITDA Margin	Dividend Yield		
New Flyer Industries	8.7%	10.0%	18.8%	18.5%	43.0%	2,952	3,705	10.1x	9.1x	17.1x	15.6x	1.8x	22.4%	12.0%	2.0%
AB Volvo (publ)	2.3%	10.5%	21.7%	22.5%	50.9%	40,284	58,182	13.9x	10.3x	20.1x	17.2x	3.0x	14.4%	9.2%	2.5%
MAN SE	(0.5%)	(0.6%)	1.9%	1.9%	1.4%	20,495	23,537	22.1x	14.2x	NM	44.5x	1.7x	NA	5.2%	-
Eicher Motors Limited	0.1%	3.2%	19.4%	14.3%	35.5%	13,938	13,729	24.5x	23.2x	45.6x	37.0x	-0.3x	0.0%	18.8%	0.4%
Zhengzhou Yutong Bus Co., Ltd.	1.2%	4.0%	8.4%	7.8%	7.8%	9,084	8,553	8.4x	8.2x	11.8x	11.2x	-0.5x	34.7%	15.4%	7.0%
Hino Motors, Ltd.	(1.2%)	7.0%	14.3%	17.4%	10.5%	9,698	12,141	8.1x	7.4x	18.0x	14.3x	1.1x	10.0%	7.3%	1.6%
Ashok Leyland Limited	(2.8%)	(4.5%)	10.5%	7.9%	(17.4%)	5,054	7,007	11.7x	15.4x	23.0x	20.4x	3.5x	21.9%	14.1%	1.1%
Xiamen King Long Motor Group Co., Ltd.	(6.2%)	(0.1%)	4.9%	6.2%	3.2%	1,779	1,782	19.9x	34.9x	49.7x	NM	-6.8x	1.5%	1.8%	-
Navistar International Corporation	(1.0%)	(7.5%)	(22.3%)	(20.3%)	106.5%	3,237	8,818	20.4x	11.2x	NM	NM	6.9x	NA	3.9%	-
Anhui Ankai Automobile Co., Ltd	0.1%	(2.0%)	5.6%	5.6%	(4.2%)	949	1,163	NM	NA	NM	NA	NA	3.2%	(36.8%)	-
Otokar Otomotiv ve Savunma Sanayi A.S.	0.5%	(10.8%)	(4.3%)	(7.7%)	16.2%	1,090	1,235	21.9x	17.2x	42.4x	32.1x	2.1x	28.6%	9.4%	2.4%
Zhongtong Bus Holding Co., Ltd	2.0%	0.5%	0.8%	1.1%	59.0%	1,848	1,931	10.6x	NA	14.3x	13.5x	NA	30.3%	10.4%	1.5%
Marcopolo S.A.	4.2%	-	(2.5%)	0.7%	5.7%	997	1,379	20.9x	18.3x	11.1x	23.6x	4.7x	11.9%	2.4%	-
Yangzhou Yaxing Motor Coach Co., Ltd.	(1.7%)	(3.3%)	(0.5%)	(1.2%)	39.4%	658	836	17.3x	NA	23.9x	NA	NA	126.0%	8.8%	-
Blue Bird Corporation	4.6%	0.3%	7.2%	NA	NA	522	781	10.9x	7.6x	NM	12.2x	1.9x	NA	5.4%	-
SML Isuzu Limited	1.4%	(1.0%)	18.3%	16.3%	60.8%	373	369	16.0x	NA	25.7x	NA	-0.1x	0.0%	8.6%	0.6%
Anadolu Isuzu Otomotiv Sanayi ve Ticaret A.S.	1.8%	(4.3%)	(10.1%)	(9.2%)	1.5%	165	258	26.0x	NA	NM	NA	NA	NA	3.2%	2.9%
Hinopak Motors Limited	(1.5%)	4.4%	(4.4%)	(13.3%)	59.7%	249	232	10.1x	NA	17.6x	NA	NA	27.7%	8.0%	5.4%
Median	0.3%	(0.0%)	5.3%	5.6%	16.2%			16.0x	12.7x	20.1x	17.2x	1.8x	18.2%	8.3%	0.9%
Grande West (EWP)	16.6%	37.5%	114.3%	110.2%	450.0%	202	207	NM	58.5x	NM	80.2x	NM	NM	NM	-

Source: Echelon Wealth Partners, Company Reports and Filings, Capital IQ

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Company: Grande West Transportation | BUS:TSXV

I, Amr Ezzat, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

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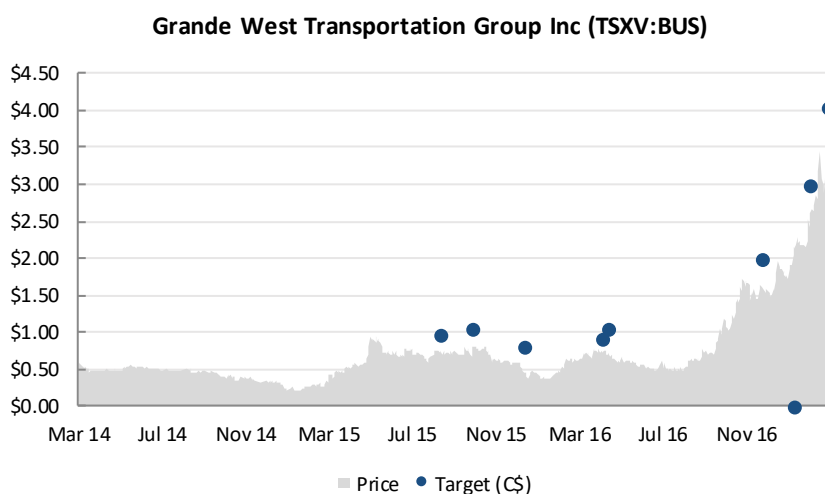
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Buy	The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12 month time horizon.
Speculative Buy	The security is considered a BUY but in the analyst’s opinion possesses certain operational and/or financial risks that are higher than average.
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Number of recommendations	45	34	10	0	3	1	0
% of Total (excluding Restricted)	49%	37%	11%	0%	3%		
Number of investment banking relationships	9	11	0	0	1	1	0
% of Total (excluding Restricted)	43%	52%	0%	0%	5%		

PRICE CHART, RATING & PRICE TARGET HISTORY



Date	Target (C\$)	Rating
10 Sep 2015	\$0.95	Spec Buy
28 Oct 2015	\$1.05	Spec Buy
12 Jan 2016	\$0.80	Spec Buy
3 May 2016	\$0.90	Spec Buy
11 May 2016	\$1.05	Spec Buy
22 Dec 2016	\$2.00	Spec Buy
8 Feb 2017	RESTRICTED	RESTRICTED
3 Mar 2017	\$3.00	Spec Buy
29 Mar 2017	\$4.05	Spec Buy

Coverage Initiated: Sep 10, 2015
Data sourced from: Capital IQ

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