

Grande West Transportation (BUS-V)

Cash Supercharges the BUS to Take On The U.S. Market

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- We are resuming coverage of Grande West Transportation Group Inc. (BUS-V, "GW") post the close of its recent financing on March 1st, 2017.
- Cash Should Accelerate Growth in The U.S.:** With ~\$13.8 million of cash on hand, GW can now fast-track its expansion in the U.S. Consequently, we expect the company to announce its final arrangements for its U.S. facility with a view to start its assembly operation in the U.S. for the public transit market in Q3/FY17. With that in mind, we have tweaked our assumptions, now expecting this accelerated U.S. operation to yield the first sale into U.S. public transit in early FY18, with faster sales ramp-up in FY18-FY19 (now expecting 300 units in FY18 from 264 previously, 360 in FY19 up from 300 previously). We understand that ABG (GW's partner in the U.S.) have ramped up its sales force and efforts for the Vicinity, currently pursuing numerous bids across the U.S. market.
- The U.S. Public Transit Market Opportunity:** Our revised numbers continue to be based on our assumption for GW to capture a 10-20% market share from the replacement of similar-sized buses (ie. 30 and 35-foot models) and cutaways, a market segment that we estimate to be more than ~1,000 units annually in the U.S. Thus, the right-sizing opportunity (ie. replacing 40-foot buses, a 4,000 – 5,500 units market) in the U.S. continue to represent the biggest upward bias to our analysis. We remind that last month the right-sizing thesis in Canada was solidified as we learned that BC Transit intends to use ~25 Vicinity buses from its latest order to replace 40-foot buses (see our note from February 7th, 2017). We elect to maintain our current ASP assumptions until we gain more colour on the pricing level that GW could be competitive at with its first U.S. public transit win. We remind you that ASPs in U.S. public transit market are at least of \$560k (see following page).

We maintain our BUY rating and raise our target price to \$3.00 (DCF_{10%}) (was \$2.50 [DCF_{12%}]) on the back of our revised estimates and reduced discount rate (reflecting the now-minimal financing risk).

Resuming Coverage

BUY (Unch.) \$3.00 (was \$2.50)

Last Price	\$2.52
12-month Target Price	\$3.00
Potential Return	19%
Dividend Yield	0.0%
52 Week Price Range	\$0.41 - \$2.52

Estimates				
YE: Dec 31st	FY16E*	FY17E	FY18E	
Revenue (\$MM)	\$14.5	→ \$73.3	↑ \$120.0	
EBITDA (\$MM)	-\$3.5	→ \$8.1	↑ \$14.4	
FD EPS	-\$0.09	→ \$0.10	→ \$0.15	

Previous Estimates			
Revenue (\$MM)	\$14.5	\$73.3	\$105.8
EBITDA (\$MM)	(\$3.5)	\$8.1	\$12.5
FD EPS	(\$0.09)	\$0.10	\$0.15

* 16 months year ending Dec. 31st, includes stub quarter

Valuation			
	FY16E*	FY17E	FY18E
EV/Sales	11.1x	2.2x	1.3x
EV/EBITDA	n/m(neg)	19.9x	11.2x
P/E	n/m(neg)	25.2x	16.8x
FCF Yield %	0%	0%	0%

Stock Data (MM)	
Shares Outstanding	
Basic	69.6 Assumes conversion of debentures
FD	77.1
Market Cap	
Basic	\$175.4
FD	\$194.3
Net Debt	-\$13.84 Pro-forma
EV	\$161.5

About the Company

Grande West Transportation Group is a Canadian company that design, engineers and manufactures heavy-duty, medium-sized buses for public transits and private entities in Canada and the U.S. The company's main product is the Vicinity bus which comes in 27.5, 30 and 35-foot sizes and was developed in cooperation with BC Transit.

All prices in C\$ unless otherwise indicated



Exhibit 1: Financial Summary

(in \$000s unless otherwise noted)	Dec-17 2017E	Dec-18 2018E	Dec-19 2019E	Dec-20 2020E	Dec-21 2021E
Buses Delivered	200	300	360	405	435
ASP (\$000s)	\$361	\$393	\$400	\$408	\$412
Bus Sale Revenue	\$72,220	\$117,850	\$144,000	\$165,240	\$179,255
Parts Revenue	\$1,083	\$2,121	\$5,040	\$9,088	\$15,237
Consolidated Revenue	\$73,303	\$119,971	\$149,040	\$174,328	\$194,491
Gross Profit	\$13,659	\$23,323	\$29,358	\$34,990	\$40,220
%	18.6%	19.4%	19.7%	20.1%	20.7%
EBITDA	\$8,061	\$14,361	\$18,597	\$22,612	\$26,314
%	11.0%	12.0%	12.5%	13.0%	13.5%
Net Income	\$7,648	\$11,813	\$13,566	\$16,520	\$19,240
Free Cash Flow	(\$6,629)	\$5,570	\$9,097	\$12,746	\$16,920
DCF Summary		Terminal Value Calculation			
Discount Rate	10%	Method: Exit Multiple			
PV of FCF	\$206,815	EV/EBITDA Multiple 10.0x			
Net Debt (Q4/FY17)	-\$4,335	EBITDA \$26,314			
S/O (MM)	69.6	EV \$263,142			
Share Value	\$3.00				

Source: Beacon Securities estimates.

Exhibit 2. Cost of Buses to U.S. Transit Agencies (2014/2015 figures)

Category	30-foot Transit	35-foot Transit	40-foot Transit	Intercity Bus ¹	Suburban Bus ²
Average Cost	US\$422,278	US\$533,776	US\$503,722	US\$555,148	US\$345,733

1) >=32'6", 1 door, luggage bays

2) >=27'6", 1 door, no luggage bays

Source: APTA.

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As at February 28, 2017	#Stocks	Distribution
Buy	65	74.7%
Speculative Buy	11	12.6%
Hold	4	4.6%
Sell	0	0.0%
Under Review	5	5.7%
Tender	2	2.3%
Total	87	100.0%

Buy	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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