

Grande West Transportation (BUS-V) Record Quarterly Deliveries and First Profitable Quarter

July 24, 2017

Ahmad Shaath, CFA, MBA

(416) 507-3964

ashaath@beaconsecurities.ca

Record Quarterly Deliveries: Grande West provided an operational update for Q2/FY17, announcing a record 32 buses delivered during the quarter. This brings 1H/FY17 deliveries to 44, which is inline with our expectations. The company reiterated its guidance for 200 deliveries in FY17. The company's 2H/FY17 pipeline is largely comprised of deliveries for BC and Edmonton transit authorities, which helps streamline its ramp-up.

Achieving Profitability: Grande West's management also indicated that Q2/FY17 will be the company's first profitable quarter. This is ahead of our expectations, as we were expecting Q2/FY17 to be breakeven on bottom-line basis. This is a significant milestone for BUS as it implies the company is now cash flow positive.

U.S. Public and Private Markets Represent Significant Upside: Our current estimates continue to be based on our assumption for GW to capture a 10-20% market share from the replacement of similar-sized buses (i.e. 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. The right-sizing opportunity (i.e. replacing 40-foot buses, a 4,000 – 5,500 units market) and the private market (i.e. airport shuttles etc..., estimated to be upwards of ~15,000 units annually) continue to represent a very significant upward bias to our analysis. We note that each incremental 100 units in sales could yield \$0.03-\$0.05 in FD EPS.

Q2/FY17 Reporting: The company announced that it will report Q2/FY17 results before market open on August 17th, with call at 11AM EST (dial in: (866) 215-5508).

Maintaining Our Estimates: We have maintained our estimates for FY17E. This announcement gives us more comfort in our forecast 200 deliveries for FY17E, which we estimate to yield revenue of \$73.3 million and EBITDA of \$8.1 million

We maintain our BUY rating and \$3.60 target price (DCF_{8%})

Q2/FY17 Update BUY (Unch.) \$3.60 (Unch.)

Last Price	\$2.80
12-month Target Price	\$3.60
Potential Return	29%
Dividend Yield	0.0%
52 Week Price Range	\$0.48 - \$3.45

YE: Dec 31st	Estimates		
	FY16A*	FY17E	FY18E
Deliveries	24	200	300
ASP (\$ 000's)	\$300	\$359	\$393
Revenue - net (\$MM)	\$8.1	\$73.3	\$120.0
EBITDA (\$MM)	(\$4.5)	\$8.1	\$14.4
FD EPS	(\$0.11)	\$0.08	\$0.17

Previous Estimates		
Deliveries	200	300
ASP (\$ 000's)	\$359	\$393
Revenue - net (\$MM)	\$73.3	\$120.0
EBITDA (\$MM)	\$8.1	\$14.4
FD EPS	\$0.08	\$0.17

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

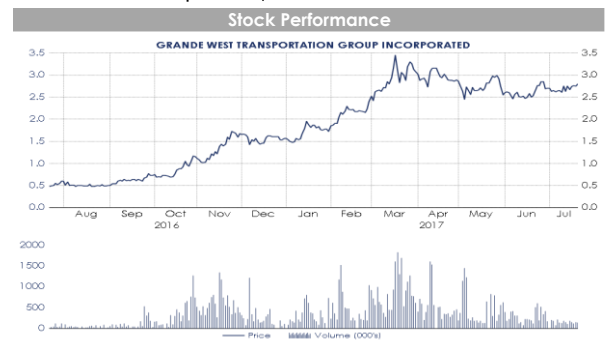
Valuation			
	FY16E*	FY17E	FY18E
EV/Sales	24.6x	2.7x	1.7x
EV/EBITDA	nmf(neg)	24.5x	13.8x
P/E	nmf(neg)	35.0x	16.5x

Stock Data (MM)		
Shares Outstanding		
Basic	71.0	Assumes conversion of debentures
FD	77.4	
Market Cap		
Basic	\$198.9	
FD	\$216.8	
Net Debt		
EV	-\$0.1	
	\$198.8	

About the Company

Grande West Transportation Group is a Canadian company that design, engineers and manufactures heavy-duty, medium-sized buses for public transit 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



Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? Yes No

Does the analyst who prepared this research report have a position, either long or short, in any of the issuer's securities? Yes No

Does Beacon Securities beneficially own more than 1% of equity securities of the issuer? Yes No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months?
 Yes No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months? Yes No

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department? Yes No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer? Yes No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer? Yes No

Is Beacon Securities a market maker in the equity of the issuer? Yes No

Has the analyst visited the head office of the issuer and viewed its operations in a limited context? Yes No

Did the issuer pay for or reimburse the analyst for the travel expenses? Yes No

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the Investment Industry Regulatory Organization of Canada (IIROC). All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

As at June 30, 2017	#Stocks	Distribution
Buy	69	75%
Speculative Buy	10	11%
Hold	6	7%
Sell	0	0%
Under Review	5	5%
Tender	2	2%
Total	92	100%

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

Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on www.beaconsecurities.ca via login and password.

Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.