

# Grande West Transportation (BUS-V) Q2/FY17 Preview

August 11, 2017

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**Q2/FY17 Preview:** Grande West will report its Q2/FY17 results on August 17<sup>th</sup>, 2017 before the open. It will host a call at 11AM EST, call in number is 1-866-215-5508. The company pre-released its operational results for the quarter, indicating that it delivered 32 buses and it expects Q2/FY17 to be its first profitable quarter. For Q2/FY17, we are expecting revenue of \$11.7 million and EBITDA of \$410k. Our numbers reflect a marginal q/q increase in ASP and a marginal q/q decline in gross margins as the company delivers more of its "legacy" orders to BC Transit (refer to our financial summary in the following page).

**Ramp Up on Track:** With 32 buses delivered in Q2/FY17, Grande West's impressive ramp up continues (GW delivered only 12 buses in Q1/FY17). The company reaffirmed its guidance for 200 buses for FY17E, which implies 2H/FY17 deliveries of 156 buses. We recently visited the company's facilities in British Columbia, where we had a first look at the company's expanded operations. The company is expecting the expanded facility to reach a monthly run-rate of ~20 buses during Q3/FY17, implying 120 buses for 2H/FY17 from its Canadian retrofitting/finishing operations. The company is also shipping ~40-50 buses from its manufacturing line in China directly to ABG in Atlanta, which rounds up the total of 156 buses expected for 2H/FY17.

**U.S. Public and Private Markets Represent Significant Upside:** We continue to highlight the significant potential from the U.S. market as the biggest opportunity for Grande West. Our current estimates are 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 only, 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.

We maintain our BUY rating and \$3.60 target price (DCF<sub>8%</sub>)

## Q2/FY17 Preview

	BUY (Unch.)	\$3.60 (Unch.)
Last Price		\$2.74
12-month Target Price		\$3.60
Potential Return		31%
Dividend Yield		0.0%
52 Week Price Range		\$0.48 - \$3.45

	Estimates		
YE: Dec 31st	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	24.1x	2.7x	1.6x
EV/EBITDA	nmf(neg)	24.0x	13.5x
P/E	nmf(neg)	34.3x	16.1x

	Stock Data (MM)	
Shares Outstanding		
Basic	71.0	Assumes conversion of debentures
FD	77.4	
Market Cap		
Basic	\$194.7	
FD	\$212.2	
Net Debt	-\$0.1	
EV	\$194.6	

## 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**

<b>Grande West Transportation Inc.</b>				
<b>Income Statement (C\$000's)</b>	<b>Q1 2017</b>	<b>Q2 2017E</b>	<b>2017E</b>	<b>2018E</b>
<i>Period Ended</i>	<i>Mar-17</i>	<i>Jun-17</i>	<i>Dec-17</i>	<i>Dec-18</i>
Bus Sales (# of Buses delivered)	12	32	200	300
ASP (\$000's)	\$350	\$355	\$359	\$393
Bus Sales	4,202	11,360	71,758	117,850
Parts & Other	347	380	1,576	2,121
<b>Total Revenues</b>	<b>4,549</b>	<b>11,740</b>	<b>73,333</b>	<b>119,971</b>
Cost of Sales	3,597	9,895	59,887	96,649
<b>Gross Profit</b>	<b>952</b>	<b>1,846</b>	<b>13,447</b>	<b>23,323</b>
<i>Gross Margin</i>	<i>20.9%</i>	<i>15.7%</i>	<i>18.3%</i>	<i>19.4%</i>
Salaries and Wages	543	602	2,352	2,759
Research and Development	248	235	551	1,200
G&A and Other	584	599	2,488	5,003
Bad debt expense	-	-	-	-
<b>EBITDA</b>	<b>(423)</b>	<b>410</b>	<b>8,056</b>	<b>14,361</b>
<i>EBITDA Margin</i>	<i>nmf(neg)</i>	<i>3.5%</i>	<i>11.0%</i>	<i>12.0%</i>
Depreciation	5	5	21	21
Share-based Compensation	271	231	1,010	1,111
Other	-	-	-	-
<b>EBIT</b>	<b>(700)</b>	<b>174</b>	<b>7,024</b>	<b>13,229</b>
<i>EBIT margin</i>	<i>-15.4%</i>	<i>1.5%</i>	<i>9.6%</i>	<i>11.0%</i>
Financing charges	268	168	797	626
FX Loss (gain)	117	-	117	-
<b>EBT</b>	<b>(1,085)</b>	<b>6</b>	<b>6,110</b>	<b>11,875</b>
Income Taxes	-	-	-	727
<b>Net Income</b>	<b>(1,085)</b>	<b>6</b>	<b>6,110</b>	<b>11,875</b>
EPS (FD)	<b>-\$0.02</b>	<b>\$0.00</b>	<b>\$0.08</b>	<b>\$0.17</b>
Total Shares Outstanding (FD) (MM)	60,329	68,720	66,623	71,000

Source: Company filings, Beacon Securities

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As at July 31, 2017	#Stocks	Distribution
BUY	72	77.4%
Speculative Buy	11	11.8%
Hold	4	4.3%
Sell	0	0.0%
Under Review	5	5.4%
Tender	1	1.1%
Total	93	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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