

Grande West Transportation (BUS-V) Record Quarterly Results As Ramp Up Continues

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Q2/FY17 Results: Grande West reported Q2/FY17 financial results, which included record revenues, first profitability and positive cash flows on the back of the company's pre-released record delivery of 32 buses. Consolidated revenue of \$11.8 million was inline with our \$11.7 million forecast, reflecting an ASP of \$352k (vs. our estimate of \$355k). Consolidated gross margin (excluding the benefit of lease revenue) was 60bps higher than our expectations (14.8% actual vs 14.2% estimate), largely on better-than-expected margins on buses (14.4% actual vs 14.0% estimate). Reported EBITDA was \$400k, however adjusting for FX gains adjusted EBITDA was \$82k, below our expectations of \$410k. SG&A came in higher than our expectations as the company spent on ERP systems, hiring and travel expense to assure smooth ramp and integrations between BC, Atlanta and China. We are not fazed by this uptick as it is part of "growing pains", especially as the company is now cash flow positive (\$330k cash flow from operations before working capital). Ultimately Grande West delivered its first positive net income, \$222k well ahead of our \$6k expectations.

Order Backlog and Deliveries Outlook Remain Solid: As expected, GW reaffirmed its backlog for 233 buses for 2H/FY17-1H/FY18. The company's ramp up, especially on the PDI process, is continuing and GW expects 2H/FY17 pace to reach its targeted 30 buses/month. On the U.S. front, the company continues to expect its initial phase of assembly at its "College Park Plant" in Atlanta to start in Q3, targeting initial production run of 5 per month. The facility will be able to support up to 60 per month when it's fully ramped up. The company will be showcasing the College Park facility during the APTA (American Public Transportation Association) Expo in Atlanta in October, 2017.

Revising Estimates: On the revenue side, the positive revision to our estimates stems mainly from revisions to our parts revenue assumptions, which has ramped up slightly better than our expectations. As we are gaining more clarity on the delivery schedule, the 2H/FY17 deliveries will continue to include a good portion of deliveries from legacy orders to BC Transit, forcing us to revise our gross margin assumptions to the 16% range (from 18%). Combined with a slightly revised opex, our FY17E EBITDA forecast is negatively impacted by \$1.4 million. Nonetheless, our long term forecast are positively impacted from revised assumptions to parts revenues, which carries nearly 2x the margins of buses. As Grande West continues to clear out the BC Transit legacy orders, we expect margins to start trending upward in FY18E, hence we leave our margin assumptions unchanged for FY18E (refer to financial summary).

Ultimately, our DCF valuation remains unchanged, and we maintain our target price of \$3.60 (DCF_{8%}) and BUY rating.

Q2/FY17 Results

	BUY (Unch.)	\$3.60 (Unch.)
Last Price		\$2.72
12-month Target Price		\$3.60
Potential Return		32%
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	\$73.8	\$121.0	
EBITDA (\$MM)	(\$4.5)	\$6.6	\$14.6	
FD EPS	(\$0.11)	\$0.08	\$0.18	

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	24.0x	2.6x	1.6x
EV/EBITDA	nmf(neg)	29.3x	13.3x
P/E	nmf(neg)	34.0x	15.1x

Stock Data (MM)			
Shares Outstanding			
Basic	69.5		
FD	77.5		
Market Cap			
Basic	\$189.0		
FD	\$210.7		
Net Debt	\$4.6		
EV	\$193.7		

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: Q2/FY17 Results

\$000s except where noted	Q2/FY17E	
	Actual	Beacon
Buses Delivered	32	32
ASP	\$352	\$355
Bus Revenue	\$11,259	\$11,360
Parts revenue & Other	\$522	\$380
Total Revenue	\$11,781	\$11,740
Bus Gross Margin	14.4%	14.0%
Consolidated Gross Margin*	14.8%	14.2%
EBITDA	\$82	\$410
EBITDA Margin	0.7%	3.5%
EPS (\$)	\$0.00	\$0.00

* Excluding contribution from lease revenue

Source: Company reports, Beacon estimates.

Exhibit 2: Financial Summary

\$000s except where noted	Q3/FY17E	Q4/FY17E	FY17E		FY18E	
	New	New	New	Old	New	Old
Buses Delivered	60	96	200	200	300	300
ASP	\$359	\$361	\$359	\$359	\$393	\$393
Bus Revenue	\$21,540	\$34,702	\$71,703	\$71,758	\$117,850	\$117,850
Parts revenue & Other	\$562	\$668	\$2,099	\$1,576	\$2,239	\$2,121
Total Revenue	\$22,102	\$35,370	\$73,802	\$73,333	\$120,957	\$119,971
Bus Gross Margin	16.0%	18.0%	16.8%	17.3%	19.3%	19.3%
Consolidated Gross Margin*	16.2%	18.1%	16.9%	17.4%	20.0%	19.4%
EBITDA	\$2,138	\$4,840	\$6,637	\$8,056	\$14,586	\$14,361
EBITDA Margin	9.7%	13.7%	9.0%	11.0%	12.1%	12.0%
EPS (\$)	\$0.03	\$0.07	\$0.08	\$0.08	\$0.18	\$0.17

* Excluding contribution from lease revenue

Source: Company reports, Beacon estimates.

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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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