

Grande West Transportation

Line of Sight to Fully Fledged US Entry. Upping PT to \$3.00/Shr.

BUS-TSXV: \$2.47
Speculative Buy
\$3.00 Target ↑ (prev. \$2.00)

We are off restriction on Grande West Transportation (“Grande West”, “BUS”, or “the Company”) following the closing of the \$13.7M equity offering at \$1.90/shr. We anticipate the proceeds to be used to finance orders, and more importantly, to accelerate the Company’s penetration into the US federally funded transit market.

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 the financing in hand, best-in-class Altoona test results and Buy America certification achieved, we view line of sight to a successful fully fledged entry into the US market.

While the stock price up 242% since of September 2015 initiation, we remain positive about the long-term prospects of the Company. Namely, we are increasing our sales estimates to reflect the de-risking of the US entry. Our target price moves to 3.00/shr, implying 21.5% return from current levels.

With a best-in-class product, a more meaningful entry into the US is expected: The Company secured “Buy America” certification recently, allowing it to market its buses to federally funded transit authorities south of the border. To this effect, the Company has been working on a potential JV for US contract manufacturing. **A successful entry into the US transit market could see our target price increase further. With Grande, we have consistently referenced our scenario analysis pointing to catalysts that would support prospective, positive recalibrations of forecasts and in turn our PT. With positive line of sight on the US, we view this as such a time.**

We expect the Vicinity to gain traction in the US transit market (as observed in Canada); 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 and the increased shares outstanding. We are now calling for 248 buses to be sold in 2018, up from our previous forecast of 200. We are also introducing 2019 estimates, where we estimate BUS to sell 300 buses. We are calling for \$10.2M in EBITDA in 2018 and \$13.2M 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 \$3.00/shr, implying a 21.5% return from current levels.

Projected Total Return: 21.5%
Valuation: DCF (12.0% discount;
4.5% GRIP)

Market Data

Market Capitalization (Diluted)	185.3
Net Debt	5.7
Enterprise Value	191.0
Basic Shares O/S (pro forma)	63.2
Fully Diluted Shares O/S (TSM)	75.0
Avg. Daily Volume (K)	373.8
52 Week Range	\$0.41 - \$2.52
Dividend Yield	0.0%

Revisions (\$K)

	Current	Old
2018E Bus / Parts Revenues	88,255	66,341
2018E EBITDA	10,207	8,790
2018E EPS	\$0.14	\$0.12

Financial Metrics (\$K)

FYE - Dec 31	F2016*	C2017	C2018
Bus / Parts Revenues	5,093	57,470	88,255
EBITDA	-3,454	4,378	10,207
EPS	-0.08	0.06	0.14

*Fiscal year ended Aug 31

Valuation Data

FYE - Dec 31	F2016*	C2017	C2018
EV/Bus / Parts Revenues	37.5x	3.3x	2.2x
EV/EBITDA	NA	43.6x	18.7x
P/E	NA	42.9x	17.1x

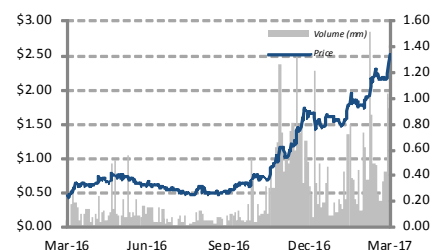
*Fiscal year ended Aug 31

Quarterly Data (\$K)

	Q1	Q2	Q3	Q4
Bus / Parts Rev. '17	10,482	14,750	16,096	16,142
Bus / Parts Rev. '18	21,976	22,034	22,093	22,151
EBITDA '17	568	1,145	1,328	1,337
EBITDA '18	2,536	2,547	2,557	2,568
EPS '17	0.01	0.02	0.02	0.02
EPS '18	0.04	0.04	0.04	0.04

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, \$2.47) - 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	88,255	107,514
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	15,143	18,455
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	10,207	13,194
Margin	-67.8%	5.4%	7.8%	8.3%	8.3%	7.6%	11.6%	12.3%
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	0.01	0.02	0.02	0.02	0.06	0.14	0.19
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	\$2.52
52-Week Low	\$0.41 (83%)
Avg Vol (3-Mo)	374k
Shares Outstanding (TSM Method)	75.0
Market Cap	\$185.30
Net Debt	\$5.73
Enterprise Value	\$191.03
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	6.7%
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	248	300
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	86,800	105,000
Parts sales (\$K)	300	82	125	171	217	595	1,455	2,514
Buses (% sales)	94%	99%	99%	99%	99%	99%	98%	98%
Parts (% sales)	6%	1%	1%	1%	1%	1%	2%	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	Price/Earnings NTM	Net Debt / EBITDA	ROE	LTM EBITDA Margin	Dividend Yield	
New Flyer Industries	(0.9%)	6.9%	8.3%	8.8%	64.9%	2,721	3,487	10.3x	8.8x	20.2x	14.8x	1.9x	18.4%	12.5%	2.2%
AB Volvo (publ)	0.8%	1.4%	20.6%	12.9%	38.4%	36,016	53,383	13.1x	9.9x	18.6x	16.2x	3.2x	14.4%	9.1%	2.7%
MAN SE	(0.1%)	1.5%	4.1%	2.8%	2.6%	20,179	22,970	22.6x	15.8x	NM	NM	1.9x	3.8%	5.2%	-
Eicher Motors Limited	(5.8%)	(1.3%)	3.3%	7.5%	21.7%	12,781	12,577	23.0x	21.7x	42.9x	34.8x	-0.3x	0.0%	18.8%	0.4%
Zhengzhou Yutong Bus Co., Ltd.	0.5%	1.0%	(2.3%)	4.4%	4.1%	8,802	8,271	8.2x	8.4x	11.4x	8.8x	-0.6x	34.7%	15.4%	7.3%
Hino Motors, Ltd.	1.1%	7.1%	17.4%	13.3%	14.3%	9,045	11,407	7.9x	7.2x	17.4x	13.8x	1.1x	10.0%	7.3%	1.7%
Ashok Leyland Limited	(3.5%)	(7.9%)	16.9%	9.1%	(6.5%)	4,982	6,887	11.8x	NA	23.2x	NA	3.6x	21.9%	14.1%	1.1%
Xiamen King Long Motor Group Co., Ltd.	(1.6%)	1.9%	13.3%	7.0%	7.8%	1,792	1,795	20.1x	35.1x	NM	NM	-6.8x	1.5%	1.8%	-
Navistar International Corporation	4.3%	0.9%	(10.1%)	(11.9%)	198.2%	3,741	9,228	19.9x	12.4x	NM	NM	7.4x	NA	4.2%	-
Anhui Ankai Automobile Co., Ltd	(2.6%)	2.3%	1.3%	5.9%	3.1%	951	1,232	NM	NA	NM	NA	NA	2.0%	(38.2%)	0.3%
Otokar Otomotiv ve Savunma Sanayi A.S.	(1.8%)	1.9%	17.0%	4.2%	48.5%	1,216	1,358	24.4x	21.2x	47.8x	36.2x	2.4x	28.6%	9.4%	2.2%
Zhongtong Bus Holding Co., Ltd	3.5%	10.3%	(4.5%)	2.3%	68.2%	1,871	1,955	10.7x	NA	14.5x	14.9x	NA	30.3%	10.4%	1.6%
Marcopolo S.A.	(2.4%)	(5.4%)	11.6%	2.2%	22.8%	1,052	1,423	9.4x	16.8x	11.5x	24.0x	4.2x	11.9%	10.1%	-
Yangzhou Yaxing Motor Coach Co., Ltd.	0.3%	5.8%	4.1%	0.3%	58.0%	668	846	17.5x	NA	24.3x	NA	NA	126.0%	8.8%	-
Blue Bird Corporation	1.8%	0.6%	3.3%	NA	NA	524	783	11.0x	7.7x	NM	12.3x	1.9x	NA	5.4%	-
SML Isuzu Limited	0.2%	(0.4%)	14.5%	15.8%	71.6%	362	358	15.9x	NA	25.6x	NA	-0.1x	0.0%	8.6%	0.6%
Anadolu Isuzu Otomotiv Sanayi ve Ticaret A.S.	(0.2%)	(5.4%)	43.0%	(6.1%)	6.1%	169	288	NM	NA	0.0x	NA	NA	NA	2.0%	2.7%
Hinopak Motors Limited	5.1%	(6.5%)	10.3%	(8.7%)	64.6%	263	246	10.6x	NA	18.6x	NA	NA	27.7%	8.0%	5.7%
Median	0.1%	1.2%	9.3%	4.4%	22.8%			12.4x	12.4x	18.6x	14.9x	1.9x	14.4%	8.7%	0.8%
Grande West (EWP)	13.8%	32.8%	47.9%	57.3%	448.9%	141	147	NM	43.6x	NM	42.9x	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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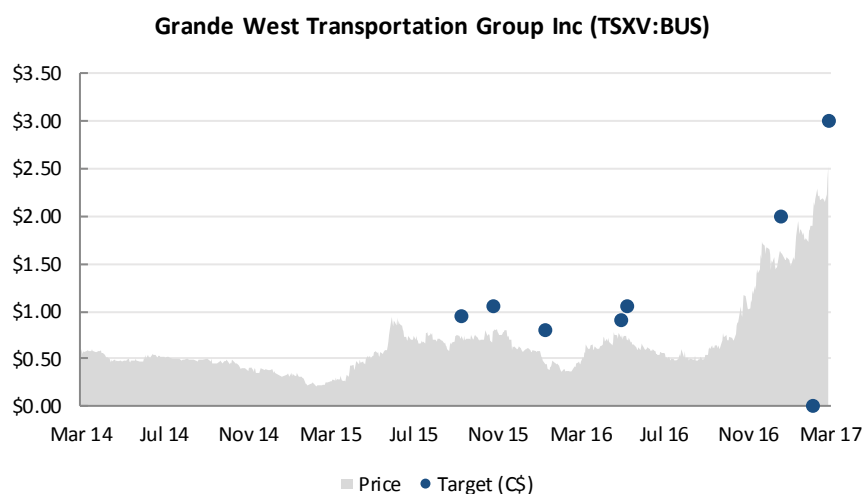
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Buy	The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12 month time horizon.
Speculative Buy	The security is considered a BUY but in the analyst's opinion possesses certain operational and/or financial risks that are higher than average.
Hold	The security represents fair value and no material appreciation is expected over the next 12-18 month time horizon.
Sell	The security represents poor value and is expected to depreciate over the next 12 month time horizon.
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Recommendation Hierarchy	Buy	Speculative Buy	Hold	Sell	Under Review	Restricted	Tender
Number of recommendations	38	30	6	0	2	0	1
% of Total (excluding Restricted)	50%	39%	7%	0%	3%		
Number of investment banking relationships	8	7	0	0	0	0	0
% of Total (excluding Restricted)	53%	47%	0%	0%	0%		

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

Coverage Initiated: Sep 10, 2015

Data sourced from: Capital IQ

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