

Grande West Transportation (BUS-V) First Sale To A U.S. Public Transit Agency

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First U.S. Public Transit Sale: Today before the market open Grande West announced its first sale to a U.S. public transit agency, with Metropolitan Atlanta Rapid Transit Authority ("MARTA") purchasing 10 30-foot Vicinity buses. This order represents the second partial fulfillment of ABG's (GW's U.S. sales partner) order of 50 buses placed in late 2015.

Thesis Receives Strong Validation in The U.S.: MARTA plans to deploy the Vicinity to replace full-size, 40-foot buses and repurposed "Mobility" buses (ie. Cutaways), which is the first market validation of the "right-sizing" thesis in the U.S. MARTA's CEO highlighted the Vicinity's superior turn radius, light curb weight, increased gas mileage, cabin capacity and accessibility as ideal features to address its riders demands, especially on narrow roads. Specifically, the Vicinity's combination of maneuverability (advantage vs. 40-foot) and capacity (advantage vs. cutaways) were the strongest selling factors. The vicinity will be deployed on 5 "Community Circulator" routes in April 2017, one of which is a completely new route, which we understand was facilitated by the Vicinity's features. We note that MARTA has not used federal funds for this purchase, which allowed it to purchase Grade West's current production run from China (ie. not the "Certified Buy America" production run). In our view this a strong vote of confidence in the Vicinity, with federal funds usually covering 80% of rolling stock costs, MARTA could not wait for Grande West's U.S production run (i.e 1H/FY18) to deploy these buses. MARTA's current fleet consists of over 850 vehicles, majority of which are full-size buses (>35-foot).

U.S. Transit Opportunity: 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 (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. The right-sizing opportunity (ie. replacing 40-foot buses, a 4,000 – 5,500 units market) in the U.S. continues to represent the biggest upward bias to our analysis. We elect to maintain our volume assumptions unchanged given the order's size relative to the overall opportunity.

Having registered its first sale to a U.S. public transit agency, in our view the Grande West story has been significantly derisked. Consequently, we are **raising our target price to \$3.60 (was \$3.00)** on the back of our revised discount rate (now 8%, was 10%). Maintain BUY rating.

First U.S. Public Transit Sale

BUY (Unch.) \$3.60 (was \$3.00)

Last Price	\$2.88
12-month Target Price	\$3.60
Potential Return	25%
Dividend Yield	0.0%
52 Week Price Range	\$0.46 - \$3.45

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	\$120.0
EBITDA (\$MM)	(\$3.5)	\$8.1	\$14.4
FD EPS	(\$0.09)	\$0.10	\$0.15

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

Valuation

	FY16E*	FY17E	FY18E
EV/Sales	12.9x	2.5x	1.6x
EV/EBITDA	nmf(neg)	23.0x	13.0x
P/E	nmf(neg)	28.8x	19.2x

Stock Data (MM)

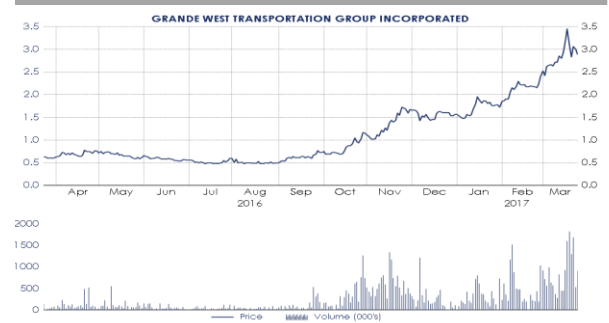
Shares Outstanding	
Basic	69.6 Assumes conversion of debentures
FD	77.1
Market Cap	
Basic	\$200.4
FD	\$222.0
Net Debt	-\$13.84 Pro-forma
EV	\$186.6

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

Stock Performance



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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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