

# Grande West Transportation (BUS-V) Secures U.S. Facility to Assemble Buy America Certified Buses

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Ahmad Shaath, CFA, MBA

Analyst - (416) 507-3964

[ashaath@beaconsecurities.ca](mailto:ashaath@beaconsecurities.ca)

**U.S. Assembly In Atlanta, Georgia:** Today before the market open Grande West announced it has secured a manufacturing agreement to produce Vicinity buses in Atlanta, Georgia that meets FTA Buy America requirements. We remind that Grande West had qualified for Buy America program (ie. 60% American Content and final assembly in the U.S.) in late 2016, and this facility is the final step to enable GW to produce buses that qualify for federally-funded RFPs.

**Strengthening Partnership With ABG, With US\$1 Million Vote Of Confidence:** Grande West signed an agreement with its exclusive U.S. distributor Alliance Bus Group ("ABG"), under which ABG will invest US\$1 million into its existing, 70,000 square foot facility and leverage its staff and expertise to produce Vicinity buses in Atlanta, Georgia. Grande West will not be investing any capex initially, and will pay ABG on per-unit basis. Grande West will oversee production by providing its engineering supervision to ensure QC/QA requirements. We note that ABG has skilled expertise in final assembly, maintenance and service, and has built 40-foot motor coach buses previously.

**Ready To Deliver in Q3/FY17:** With this agreement, Grande West expects to commence production and deliver units in Q3/FY17. We view this as very positive as it demonstrates management continued ability to execute on its plans in a timely manner. Having recently registered its first U.S public transit sale ( see our report from March 27<sup>th</sup>, 2017), Grande West's Vicinity has proved its market credentials in the U.S. and we view the Q3/FY17 timeline for this production facility as a good signal that U.S. public transit orders are poised to accelerate.

**U.S. Public Transit To Deliver 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 (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), which recently gained U.S. market validation (see our report from March 27<sup>th</sup>, 2017), continues to represent the biggest upward bias to our analysis. With the U.S. facility secured on time, we expect U.S. order flow to accelerate over the coming months. We maintain our volume assumptions until we gain better visibility to the order of magnitude that Grande West's U.S. public transit backlog would be. 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>)

## Secures U.S. Assembly Facility BUY (Unch.) \$3.60 (Unch.)

Last Price	\$3.19
12-month Target Price	\$3.60
Potential Return	13%
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		
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\* 16 months year ending Dec. 31st, includes stub quarter

	Valuation		
	FY16E*	FY17E	FY18E
EV/Sales	14.3x	2.8x	1.7x
EV/EBITDA	nfm(neg)	25.7x	14.5x
P/E	nfm(neg)	31.9x	21.3x

Stock Data (MM)	
Shares Outstanding	
Basic	69.6 Assumes conversion of debentures
FD	77.1
Market Cap	
Basic	\$222.0
FD	\$245.9
Net Debt	-\$13.84 Pro-forma
EV	\$208.2

## 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



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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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