

Grande West Transportation

The Snowball Effect: Flurry of New Awards Validate Thesis – Shift to Self-Sustaining Model Warrants Re-Rating. Upping PT to \$2.00/Shr

BUS-TSXV: \$1.63
Speculative Buy
\$2.00 Target ↑ (prev. \$1.05)

Grande West Transportation (“Grande West”, “BUS”, or “the Company”) blasted through our target price in November (the stock is up 155% in the last 3 months) on a flurry of new orders and increased market traction. Following the BC Transit May 2016 award for 41, 30-foot medium-duty buses (with an option to purchase an additional 71 buses), we noted that we felt “the BC Transit validation can create a ripple effect, bringing in new clients” ([May 11, 2016 note](#)). Our thesis materialized, albeit, at a much faster pace than expected. We are updating our estimates to reflect the aforementioned orders, and reducing our discount rate to reflect the diminished risk profile. **Our target price moves to \$2.00/shr, implying a 22.9% return from current levels. Our new target price and estimates are consistent with our upside scenario introduced in our [September 10, 2015 initiating note](#). A successful entry into the US transit market could see our target price substantially increase.**

The snowball effect – BC Transit RFP win was a significant validation for the product, the implications of which are driving recent orders: Aside from the contract’s substantial size, we noted earlier this year that we viewed the BC Transit RFP win as very encouraging in that the contract was won through a competitive bidding process, validating the Vicinity’s cost-effective design and quality. We also thought that given BC Transit is the Company’s first client, **the repeat order would create a ripple effect, bringing in new clients.**

The Company has received 175 bus orders thus far from clients for 2017 delivery, 70+ of which were awarded post the BC Transit RFP contract. For 2018, the Company currently has 90 firm/optional orders. Orders were received from a multitude of customers nationwide including the City of Edmonton, the City of Prince Albert, and the City of Burlington. As well, the Company announced its first US client (Atlanta International Airport), with 13 buses expected to be delivered in 2017 through the Alliance Bus Group.

Highlights from conference call suggest more to come: With a renewed manufacturing contract with Weichai Group last June, the Company has committed to expand its production schedule to a minimum of 15 buses per month for 2017, which implies a sales performance exceeding \$60M, a number management has pinned as more than achievable. As a matter of fact, management’s tone on the Company’s inaugural conference call yesterday suggested that it is awaiting results from bids, implying that there is upside to the aforementioned 175 committed orders for 2017. **As well, management emphasized that margin performance should significantly improve, leading to profitability as soon as Q117.**

Altoona test results validate best-in-class status; key to securing more orders in our opinion: The Vicinity was tested for the maximum allowable 12-year, durability testing. US regulations require that all new bus models used for mass transportation and purchased with FTA funds to complete an Altoona Test. The primary focus of the test program is to evaluate the structural durability and integrity, reliability, performance, maintainability, safety, noise, and fuel economy. The Company is already FMVSS certified, which allows it to sell the Vicinity to non-transit authorities in the US. Another big kicker in the US would be to finalize a business model for the final assembly of the buses, which would allow Grande West to sell its product to federally funded transit authorities. The Company is actively pursuing this.

Projected Total Return: 22.9%
Valuation: DCF (12.0% discount;
4.5% GRIP)

Market Data

Market Capitalization	86.5
Net Debt	4.7
Enterprise Value	91.2
Basic Shares O/S	53.1
Fully Diluted Shares O/S	54.9
Avg. Daily Volume (K)	405.7
52 Week Range	\$0.35 - \$1.75
Dividend Yield	0.0%

Revisions (\$K)

	Current	Old
2017E Bus / Parts Revenues	57,470	50,872
2017E EBITDA	6,311	6,199
2017E EPS	\$0.09	\$0.09

Financial Metrics (\$K)

FYE - Dec 31	F2016*	C2017	C2018
Bus / Parts Revenues	5,093	57,470	66,341
EBITDA	-3,454	6,311	8,790
EPS	-0.08	0.09	0.12

*Fiscal year ended Aug 31

Valuation Data

FYE - Dec 31	F2016*	C2017	C2018
EV/Bus / Parts Revenues	17.9x	1.6x	1.4x
EV/EBITDA	NA	14.5x	10.4x
P/E	NA	18.9x	13.2x

*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	16,514	16,562	16,609	16,656
EBITDA '17	934	1,641	1,864	1,872
EBITDA '18	2,185	2,193	2,202	2,210
EPS '17	0.01	0.02	0.03	0.03
EPS '18	0.03	0.03	0.03	0.03

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.



The Company had best-in-class Altoona test results with only seven Class 3 failures, two involving the after treatment system and electrical system, while the others related to the axle, suspension and windows. A Fuel Economy Test was run on simulated central business district, arterial, and commuter courses. **The results were 5.09 mpg, 5.54 mpg, and 9.45 mpg, respectively, with an overall average of 6.02 mpg.** By way of comparison, the Company’s main competitor had 49 reported failures, 34 of which were Class 3 with 15 categorized as Class 4. Of the 34 Class 3 failures, 18 involved the suspension system, 8 involved the engine/transmission, 5 occurred with windows and doors, and the other 3 involved the heating system, brakes and a rear-view mirror. The Fuel Economy Test was run on simulated central business district, arterial, and commuter courses. The results were 4.47 mpg, 5.32 mpg, and 9.23 mpg, respectively, with an overall average of 5.54 mpg (**Grande West’s Vicinity had 8.7% better fuel economy**).

We present in Exhibit 1 a comparison of Vicinity’s Altoona test performance relative to peers.

Exhibit 1 – Altoona Test Result Comparison

Manufacturer	Failures ⁽³⁾				MPG
	Class 1	Class 2	Class 3	Class 4	
Vicinity			7		6.02
Competitor A			34	15	5.54
Competitor B			9	15	4.43
Competitor C 29'			20	2	4.10
Competitor D			12	6	
Competitor E			31	13	
Competitor F 40'			12	9	
Competitor G 40'			14	4	2.97
Competitor H ⁽¹⁾⁽²⁾					4.80
Competitor I ⁽²⁾	3	1	40	19	
Competitor J			21	13	
Competitor K ⁽²⁾			32	7	4.29

(1) Partial test. No durability.

(2) 10-year test.

(3) Classes 1, 2, 3, and 4 represent severity of failures where 1 is the most severe (a failure that could lead directly to passenger or driver injury and represents a severe crash situation) and where 4 is the least severe (failure that does not require removal of the bus from service).

Source: Echelon Wealth Partners Inc., Grande West Transportation, Altoona Bus Research and Testing Center

With a best-in-class product, a more meaningful entry into the US is expected: The Company secured “Buy America” certification earlier this month, 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 partnership for US contract manufacturing. **A successful entry into the US transit market could see our target price substantially increase.**

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. 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 Company’s fiscal year change to a calendar year. In the same token, we are raising our 2017 bus and parts sales/EBITDA/EPS estimates to \$57.5M/\$6.3M/\$0.09 from \$50.9M/\$6.2M/\$0.09. We are also introducing 2018 estimates of \$66.3M/\$8.8M/\$0.12. Our detailed forecasts are presented on page 3. We derive our valuation using a discounted cash flow (DCF) analysis using a 12.0% discount rate (down from 13.0%) and a 4.5% GRIP. We are revising our target price to \$2.00/shr (up from \$1.05/shr), implying a 22.9% return from current levels. The stock blasted through our target price last month (up 155% in the last 3 months) on a flurry of new orders and increased market traction. **Our new target price and estimates are consistent with our upside scenario introduced in our [September 10, 2015 initiating note](#).**

Grande West Transportation Group Inc (BUS-T, \$1.63) - 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	QO117E	QO217E	QO317E	QO417E	C2017E	C2018E
Bus and Part Revenues (\$K)	5,093	10,482	14,750	16,096	16,142	57,470	66,341
Cons.	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA
Gross Profit (\$K)	514	1,935	2,723	2,971	2,979	10,608	13,243
Margin	10.1%	18.5%	18.5%	18.5%	18.5%	18.5%	20.0%
Cons.	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA
EBITDA (\$K)	-3,454	934	1,641	1,864	1,872	6,311	8,790
Margin	-67.8%	8.9%	11.1%	11.6%	11.6%	11.0%	13.2%
Cons.	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA
Diluted EPS	-0.08	0.01	0.02	0.03	0.03	0.09	0.12
Cons.	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA

Key Statistics	Value
52-Week High	\$1.75 7%
52-Week Low	\$0.35 (79%)
Avg Vol (3-Mo)	411k
Shares Outstanding	53.1
Market Cap	\$86.52
Net Debt	\$4.69
Enterprise Value	\$91.20
Div Yield	0.0%
FYE	31-Aug
Employees	13

Top Ownership	M Shares	Δ 6 Mths	% Held
Miller, Joseph	5.05	0.00	9.5%
Trainer, William R.	2.85	0.00	5.4%
Tractorhill Sales Ltd.	0.40	0.00	0.8%
Devin, Yves	0.18	0.00	0.3%
Landry, Jean-Marc	0.11	0.00	0.2%
Wang, Yue Zhong	1.05	0.00	2.0%

Key Metrics	F2016	QO117E	QO217E	QO317E	QO417E	C2017E	C2018E
Number of buses sold	16	32	45	49	49	175	200
Price/bus	299,579	325,000	325,000	325,000	325,000	325,000	325,000
Total bus sales (\$K)	4,793	10,400	14,625	15,925	15,925	56,875	65,000
Parts sales (\$K)	300	82	125	171	217	595	1,341
Buses (% sales)	94%	99%	99%	99%	99%	99%	98%
Parts (% sales)	6%	1%	1%	1%	1%	1%	2%

Comparables and Peer Analysis	Return					Market Cap C\$	EV C\$	EV / EBITDA		Price/Earnings		Net Debt / EBITDA		LTM EBITDA Margin	Dividend Yield
	1 Week	1 Month	3 Month	YTD	1 Year			LTM	N1TM	LTM	N1TM	ROE			
New Flyer Industries	1.5%	(5.5%)	(6.7%)	196.7%	48.0%	2,441	3,206	9.5x	8.1x	18.4x	13.6x	1.9x	18.4%	12.5%	2.4%
AB Volvo (publ)	(0.9%)	10.0%	8.6%	26.3%	37.1%	31,613	49,067	12.2x	9.9x	19.9x	16.4x	3.7x	12.9%	9.3%	2.8%
MAN SE	(0.0%)	1.1%	1.4%	2.9%	3.6%	19,428	22,194	22.1x	14.8x	NM	NM	1.8x	3.8%	5.2%	-
Eicher Motors Limited	(2.2%)	4.8%	(11.6%)	41.2%	32.6%	11,461	11,259	25.7x	19.3x	NM	29.5x	-0.3x	0.0%	17.0%	0.5%
Zhengzhou Yutong Bus Co., Ltd.	0.5%	(4.6%)	(12.2%)	31.3%	(14.1%)	8,359	7,832	7.8x	7.4x	10.9x	8.5x	-0.5x	34.7%	15.4%	7.7%
Hino Motors, Ltd.	0.5%	5.5%	9.3%	(23.7%)	(12.3%)	7,976	9,850	6.8x	6.9x	13.9x	13.9x	NA	11.5%	7.5%	1.8%
Ashok Leyland Limited	0.5%	2.2%	(6.5%)	51.1%	(12.2%)	4,362	6,240	10.8x	NA	20.6x	17.8x	3.6x	21.9%	14.1%	1.2%
Xiamen King Long Motor Group Co., Ltd.	3.5%	6.5%	16.7%	15.9%	(26.2%)	1,616	1,619	18.2x	17.9x	45.5x	NM	-3.9x	1.5%	1.8%	-
Navistar International Corporation	7.0%	7.9%	41.6%	(5.0%)	266.4%	3,479	8,987	19.2x	12.5x	NM	NM	7.8x	NA	4.2%	-
Anhui Ankai Automobile Co., Ltd	0.6%	(6.2%)	(2.5%)	16.8%	(29.9%)	905	1,183	NM	NA	NM	NA	NA	2.0%	(38.2%)	0.3%
Otokar Otomotiv ve Savunma Sanayi Anonim Sirketi	7.5%	8.6%	23.0%	48.9%	44.7%	1,183	1,496	20.3x	18.8x	32.3x	NA	4.5x	49.7%	11.6%	2.7%
Zhongtong Bus & Holding Co., Ltd.	(5.6%)	(6.5%)	(13.1%)	141.8%	29.6%	1,876	1,959	10.8x	NA	14.7x	16.1x	NA	30.3%	10.4%	1.5%
Marcopolo S.A.	(3.1%)	(11.7%)	(18.8%)	(24.9%)	32.3%	839	1,187	17.6x	15.9x	9.5x	17.4x	4.5x	12.5%	3.6%	-
Yangzhou Yaxing Motor Coach Co., Ltd.	5.1%	(6.5%)	(5.1%)	0.9%	5.1%	648	826	17.2x	NA	23.7x	NA	NA	126.0%	8.8%	-
Blue Bird Corporation	(3.8%)	5.1%	20.2%	NA	NA	503	703	9.6x	7.1x	NM	13.2x	1.3x	NA	5.6%	-
SML Isuzu Limited	1.4%	1.1%	(17.0%)	28.9%	(14.0%)	301	297	14.1x	NA	22.9x	NA	-0.1x	18.3%	8.4%	0.8%
Anadolu Isuzu Otomotiv Sanayi ve Ticaret AS	1.0%	(4.3%)	(7.6%)	(43.0%)	(24.1%)	129	254	14.2x	NA	NM	NA	NA	2.1%	5.7%	3.8%
Hinopak Motors Limited	5.6%	13.8%	31.2%	93.5%	55.6%	252	221	8.6x	NA	20.9x	NA	NA	25.9%	9.1%	5.6%
Median	0.6%	1.6%	(3.8%)	26.3%	5.1%			14.1x	12.5x	20.3x	16.1x	1.9x	15.6%	8.6%	1.0%
Grande West (EWP)	13.2%	13.2%	154.7%	372.5%	186.0%	87	91	NM	14.5x	NM	18.9x	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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Does the Analyst or household member serve as a Director or Officer or Advisory Board Member of the issuer?	No
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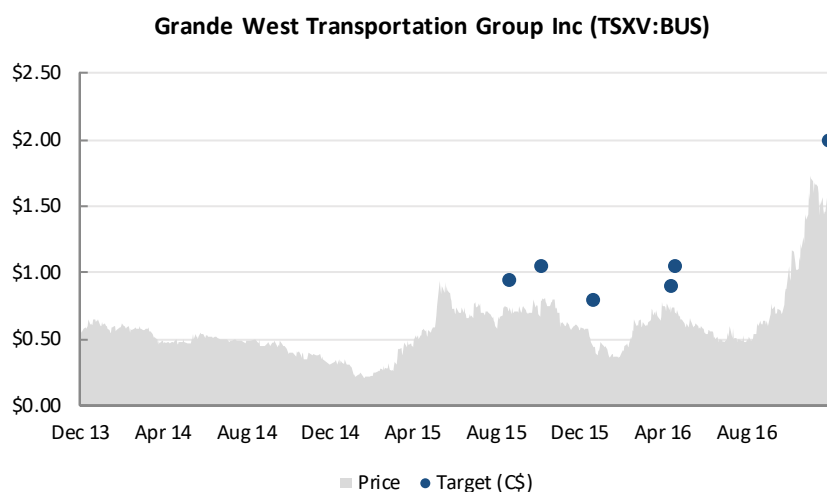
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Buy	The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12 month time horizon.
Speculative Buy	The security is considered a BUY but in the analyst's opinion possesses certain 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.
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Under Review	While not a rating, this designates the existing rating and/or forecasts are subject to specific review usually due to a material event or share price move.
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Dropped Coverage	Applies to former coverage names where a current analyst has dropped coverage. Echelon Wealth Partners will provide notice to investors whenever coverage of an issuer is dropped.

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Recommendation Hierarchy	Buy	Speculative Buy	Hold	Sell	Under Review	Restricted	Tender
Number of recommendations	31	24	7	0	1	1	2
% of Total (excluding Restricted)	47%	36%	11%	0%	3%		
Number of investment banking relationships	8	8	7	2	0	3	2
% of Total (excluding Restricted)	38%	33%	10%	0%	14%		

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

Coverage Initiated: Sep 10, 2015

Data sourced from: Capital IQ

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