

Grande West Transportation

Slippage in Q117 Nothing to Fret About – Thesis Intact.

BUS-TSXV: \$2.74
Speculative Buy
\$4.05 Target

Grande West Transportation (“Grande West”, “BUS”, or “the Company”) reported Q117 results and held a conference call yesterday. While the numbers came in below expectations on delivery slippage to Q217, our thesis remains intact. With the stock price up 280% since our September 2015 initiation, we remain positive about the Company’s long-term prospects. The Company’s impending entry into the US transit market provides BUS with continued room to deliver best-in-class growth. With a recent financing in hand, best-in-class Altoona test results, and a fully fledged US entry confirmed, we are reiterating our Speculative Buy rating and \$4.05/shr target price.

Q117 details neutral to estimates: With 12 buses delivered during the quarter, the Company reported sales/EBITDA of \$4.5M/-\$0.8M. We had anticipated the delivery of 32 buses. We note that a total of 32 buses were indeed received at company headquarters during February, but only 12 were delivered to clients, with the balance to be delivered to customers in Q217. We thus view the slippage as neutral with no bearing on our recommendation and target price. Of note during the quarter, the Company sold its buses at an ASP of \$350K/bus, realizing a 16.7% gross margin on bus sales. We continue to forecast 15-17% margins going forward on bus sales.

Estimate revision and valuation: We have tweaked our numbers to reflect Q117 results. Our estimates are largely unchanged. We continue to call for 248 buses to be sold in 2018. For 2019, we expect acceleration of traction in the US and estimate BUS to sell 440 buses. **We await confirmation of traction and keep close watch on 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. Our target price of \$4.05/shr implies a 47.8% return from current levels.

Recently announced US manufacturing agreement increases target market more than fivefold: The Company secured “Buy America” certification in December, allowing it to market its buses to federally funded transit authorities south of the border. To this effect, yesterday the Company announced a contract manufacturing agreement with ABG. Under the terms of the agreement, the Company will sell the buses directly to ABG, who in turn will be responsible for selling the final product to clients at a markup.

We expect the Vicinity to gain traction in the US transit market (as observed with the recent announcement of a 10 bus order by MARTA (Atlanta)); 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.

Projected Total Return: 47.8%
Valuation: DCF (12.0% discount;
4.5% GRIP)

Market Data

Market Capitalization (Diluted)	206.8
Net Debt	-0.1
Enterprise Value	206.8
Basic Shares O/S	66.1
Avg. Daily Volume (K)	639.5
52 Week Range	\$0.46 - \$3.45
Dividend Yield	0.0%

Revisions (\$K)

	Current	Old
2018E Bus / Parts Revenues	106,608	106,577
2018E EBITDA	12,175	12,024
2018E EPS	\$0.13	\$0.12

Financial Metrics (\$K)

FYE - Dec 31	F2016*	C2017	C2018
Bus / Parts Revenues	5,093	58,060	106,608
EBITDA	-3,454	4,084	12,175
EPS	-0.08	0.03	0.13

*Fiscal year ended Aug 31

Valuation Data

FYE - Dec 31	F2016*	C2017	C2018
EV/Bus / Parts Revenues	40.6x	3.6x	1.9x
EV/EBITDA	NA	50.6x	17.0x
P/E	NA	81.0x	21.1x

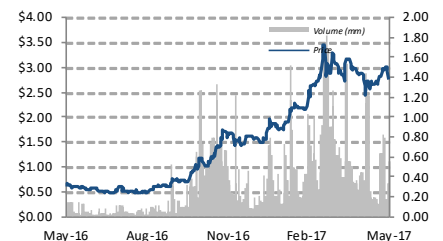
*Fiscal year ended Aug 31

Quarterly Data (\$K)

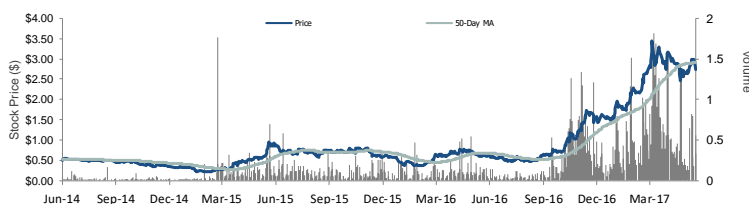
	Q1	Q2	Q3	Q4
Bus / Parts Rev. '17	4,549	21,257	16,104	16,150
Bus / Parts Rev. '18	26,546	26,616	26,687	26,758
EBITDA '17	-812	2,168	1,360	1,368
EBITDA '18	3,024	3,037	3,050	3,063
EPS '17	-0.02	0.02	0.01	0.01
EPS '18	0.03	0.03	0.03	0.03

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.



Grande West Transportation Group Inc (BUS-T, \$2.74) - 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	Q1:17A	Q2:17E	Q3:17E	Q4:17E	C2017E	C2018E	C2019E
Bus and Part Revenues (\$K)	5,093	4,549	21,257	16,104	16,150	58,060	106,608	157,072
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	952	3,274	2,482	2,491	9,199	18,351	27,044
Margin	10.1%	20.9%	15.4%	15.4%	15.4%	15.8%	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	-812	2,168	1,360	1,368	4,084	12,175	19,718
Margin	-67.8%	-17.8%	10.2%	8.4%	8.5%	7.0%	11.4%	12.6%
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	-0.02	0.02	0.01	0.01	0.03	0.13	0.21
Cons.	NA	NA	NA	NA	NA	NA	NA	NA
Cons. 3 Mths. Ago	NA	NA	NA	NA	NA	NA	NA	NA

11.72698

Key Metrics	F2016	Q1:17A	Q2:17E	Q3:17E	Q4:17E	C2017E	C2018E	C2019E
Number of buses sold	16	12	65	49	49	175	300	440
Price/bus	299,579	350,157	325,000	325,000	325,000	326,725	350,000	350,000
Total bus sales (\$K)	4,793	4,202	21,125	15,925	15,925	57,177	105,000	154,000
Parts sales (\$K)	300	347	132	179	225	883	1,608	3,072
Buses (% sales)	94%	92%	99%	99%	99%	98%	98%	98%
Parts (% sales)	6%	8%	1%	1%	1%	2%	2%	2%

Key Statistics

Key Statistics	Value
52-Week High	\$3.45
52-Week Low	\$0.46 (83%)
Avg Vol (3-Mo)	629k
Shares Outstanding (TSM Method)	75.5
Market Cap	\$206.85
Net Debt	-\$0.08
Enterprise Value	\$206.77
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.	2.89	0.00	3.8%
StoneCastle Investment Mar	0.00	0.00	-
LaGourgue, John	0.07	0.00	0.1%
Devin, Yves	0.18	0.00	0.2%
Landry, Jean-Marc	0.11	0.00	0.1%

Comparables and Peer Analysis	Return					Market		EV / EBITDA		Price/Earnings		Net Debt / EBITDA		LTM EBITDA Margin	Dividend Yield
	1 Week	1 Month	3 Month	YTD	1 Year	Cap C\$	EV C\$	LTM	NTM	LTM	NTM	ROE			
New Flyer Industries	0.3%	10.1%	27.3%	37.1%	34.9%	3,474	4,124	11.1x	9.7x	18.4x	17.2x	1.5x	23.4%	12.2%	1.7%
AB Volvo (publ)	(0.1%)	(1.0%)	21.7%	34.9%	54.6%	44,954	62,100	13.5x	10.5x	20.7x	15.2x	2.8x	14.9%	9.5%	2.3%
MAN SE	(3.1%)	(2.6%)	(2.6%)	(0.2%)	(1.0%)	20,842	24,001	21.7x	14.1x	NM	44.2x	1.7x	NA	5.2%	-
Eicher Motors Limited	3.4%	8.9%	17.2%	29.9%	53.0%	16,089	15,907	30.8x	23.7x	46.3x	34.7x	-0.3x	33.5%	33.3%	0.4%
Zhengzhou Yutong Bus Co., Ltd.	0.9%	0.5%	(0.3%)	3.3%	3.3%	8,733	7,932	7.9x	8.2x	11.2x	10.9x	-0.8x	29.5%	14.7%	5.0%
Hino Motors, Ltd.	(1.1%)	(3.9%)	2.9%	12.9%	18.2%	9,381	11,941	7.9x	7.0x	15.6x	13.7x	1.1x	11.1%	7.3%	1.9%
Ashok Leyland Limited	13.6%	9.4%	3.3%	16.7%	(14.1%)	5,550	7,388	11.1x	13.9x	16.9x	20.3x	3.2x	26.7%	14.1%	1.7%
Xiamen King Long Motor Group Co., Ltd.	2.1%	(18.2%)	(27.4%)	(22.8%)	(17.4%)	1,307	939	NM	8.5x	NM	28.2x	-4.7x	NA	(9.9%)	-
Navistar International Corporation	(2.6%)	(2.4%)	(2.8%)	(16.3%)	133.5%	3,466	9,087	20.9x	11.8x	NM	NM	7.0x	NA	3.9%	-
Anhui Ankai Automobile Co., Ltd	1.8%	(13.8%)	(28.2%)	(22.7%)	(21.4%)	693	967	NM	NA	NM	NA	NA	1.2%	(28.8%)	-
Otokar Otomotiv ve Savunma Sanayi A.S.	(0.6%)	(3.1%)	(6.8%)	(3.6%)	32.1%	1,172	1,470	20.7x	NA	31.3x	NA	NA	49.3%	10.2%	2.3%
Zhongtong Bus Holding Co., Ltd	6.6%	(16.7%)	(32.3%)	(31.9%)	(23.5%)	1,208	1,097	6.9x	NA	12.3x	6.8x	NA	20.2%	9.6%	-
Marcopolo S.A.	1.4%	16.7%	1.4%	2.2%	16.7%	980	1,469	19.3x	17.9x	12.0x	20.8x	5.9x	11.8%	2.7%	-
Yangzhou Yaxing Motor Coach Co., Ltd.	2.7%	(18.6%)	(33.3%)	(31.9%)	(13.2%)	452	636	14.4x	NA	30.5x	NA	NA	52.7%	6.4%	-
Blue Bird Corporation	0.8%	(3.0%)	6.2%	NA	NA	576	800	11.4x	7.1x	NM	11.9x	1.4x	NA	5.2%	-
SML Isuzu Limited	0.5%	(5.0%)	(0.7%)	16.7%	27.4%	380	386	17.8x	NA	29.0x	NA	0.2x	16.9%	7.6%	0.6%
Anadolu Isuzu Otomotiv Sanayi ve Ticaret A.S.	(6.7%)	21.4%	17.1%	11.2%	37.1%	208	324	35.8x	NA	NM	NA	NA	NA	3.0%	0.7%
Hinopak Motors Limited	(2.1%)	(3.7%)	2.1%	(15.2%)	42.6%	246	229	9.1x	NA	17.1x	NA	NA	27.1%	8.7%	4.4%
Median	0.7%	(2.8%)	0.6%	2.2%	18.2%			14.0x	10.5x	17.8x	17.2x	1.5x	23.4%	7.4%	0.5%
Grande West (EWP)	(8.1%)	(5.2%)	14.2%	74.5%	341.9%	173	170	NM	50.6x	NM	81.0x	NM	NM	NM	-

Source: Echelon Wealth Partners, Company Reports and Filings, Capital IQ

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Company: Grande West Transportation | BUS:TSXV

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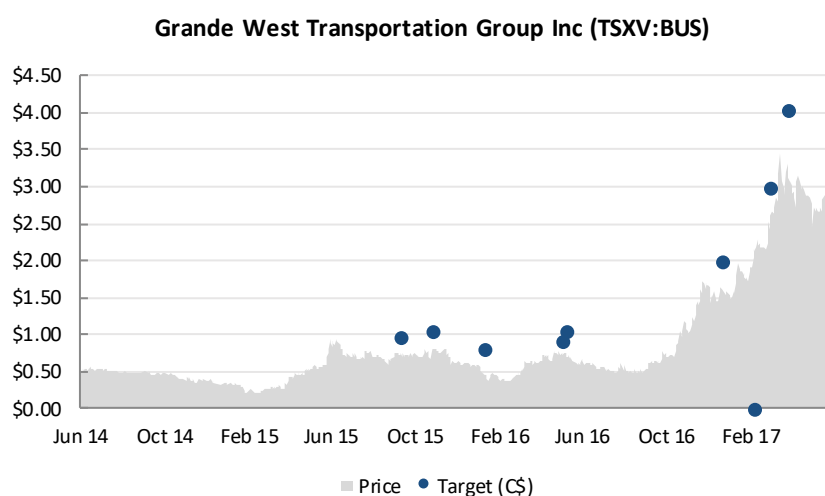
Is this an issuer related or industry related publication?	Issuer
Does the Analyst or any member of the Analyst's household have a financial interest in the securities of the subject issuer? If Yes: 1) Is it a long or short position? Yes; and, 2) What type of security is it? Common shares	No
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Buy	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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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.

RATINGS DISTRIBUTION

Recommendation Hierarchy	Buy	Speculative Buy	Hold	Sell	Under Review	Restricted	Tender
Number of recommendations	43	35	10	0	2	1	4
% of Total (excluding Restricted)	48%	39%	11%	0%	2%		
Number of investment banking relationships	10	13	0	0	0	1	0
% of Total (excluding Restricted)	43%	57%	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
29 Mar 2017	\$4.05	Spec Buy

Coverage Initiated: Sep 10, 2015

Data sourced from: Capital IQ

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