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CREDIT OPINION
9 January 2020

Update

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RATINGS

Great Rolling Stock Company Plc, The

Domicile	United Kingdom
Long Term Rating	Baa2
Type	Senior Secured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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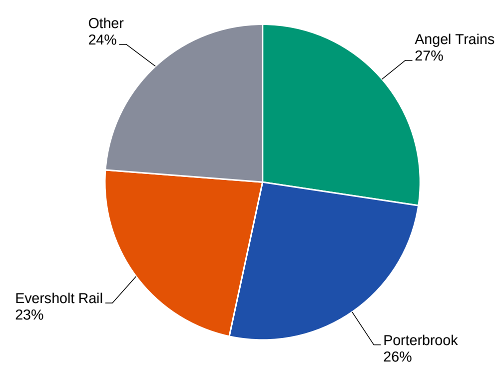
Great Rolling Stock Company Plc, The

Annual Update to Credit Analysis

Summary

Angel Trains' credit quality benefits from 1) the size, scale and fleet diversity of its leasing business resulting from its position as the UK's largest ROSCO, 2) a good operating history since privatisation, with very high rolling stock utilisation rates, 3) a track record of stable industry oversight and support from the UK Department for Transport (DfT), 4) favourable and defensive market dynamics, with a strong long-term passenger growth outlook and 5) the protective features of Angel Trains' ring-fenced financing structure. Credit quality is constrained, however, by 1) exposure to train re-leasing risk and 2) the potential for adverse rail industry regulatory change. Our current forecast net debt to EBITDA for Angel Trains is currently lower than other Baa2 rated peers. However, we note that new train procurement opportunities are not included in our forecasts. If successful in bidding for a sizeable new rolling stock procurement, we expect that Angel Trains would likely fund the cost with significant amounts of senior debt.

Exhibit 1
Angel Trains is the largest UK ROSCO, based on number of rail vehicles



Source: Angel Trains, Moody's

Credit Strengths

» Significant size and scale, with the UK's largest passenger rolling stock fleet

» Fleet diversity, with leases to 15 train operating companies (TOCs), two passenger concessions and two open access operators (OAOs)

» Stable rail industry regulatory environment

» Very high historical fleet utilisation rates

» Solid historical passenger demand dynamics

Credit Challenges

» Exposure to train re-leasing risk, which could result in lower than forecast train utilisation rates and/or lease rates

» Lease concentration, although we note that the largest fleet has recently been re-leased until 2026

» Potential for adverse regulatory change

Rating Outlook

The rating outlook is stable, reflecting our expectation of strong cashflow generation supported by rolling stock lease renewals at lease rates that are, at a minimum, in line with our base case forecast and that Angel Trains will continue to employ conservative financial policies. The stable outlook also reflects our expectation of continued stable and supportive regulation of the UK passenger rail sector.

Factors that Could Lead to an Upgrade

» A Moody's expectation, resulting from conservative financial policies or strong financial performance, that the net debt to EBITDA ratio will be lower than 4.5x on a sustained basis

Factors that Could Lead to a Downgrade

» A Moody's expectation, resulting from aggressive financial policies or poor financial performance, that the net debt to EBITDA ratio will be higher than 6.5x on a sustained basis or

» A reduction in our assumption of stable and supportive regulation of the passenger rail sector

Key Indicators

Senior debt financial ratios

As reported	Lock-up level				
12 months ended		**Dec-15**	**Dec-16**	**Dec-17**	**Dec-18**
Turnover (£'m)		493	461	495	528
EBITDA (£'m)		378	353	376	420
Net Debt (£'m)		1,791	1,783	1,859	1,846
Net Debt/EBITDA	7.50x	4.7x	5.1x	4.9x	4.4x
Interest Cover	1.75x	2.4x	2.5x	2.7x	3.1x

Source: Angel Trains, Moody's

We expect that 2019 financial results will be broadly in line with those reported for 2018.

Corporate Profile

Angel Trains Limited, formed in 1994 as part of the privatisation of the UK rail market, is the largest UK rolling stock leasing company (ROSCO), with a 27% market share at September 2019. The Group's rolling stock assets totaled 4,542 passenger train vehicles at September 2019.

Willow Bidco Limited is the parent company of Angel Trains Limited. Angel Trains (the Group) is the security ring-fenced group comprising Willow Bidco Limited and its subsidiaries, including Angel Trains Limited and The Great Rolling Stock Company Plc (the Issuer), the issuer of the Baa2 rated Senior Bonds.

The Group's activities include the procurement, financing, leasing and the arrangement of maintenance of passenger trains. The Group is owned by AMP Capital Investors Limited (65%), Public Sector Pension Investment Board (30%) and International Public Partnerships Limited (5%).

Detailed Credit Considerations

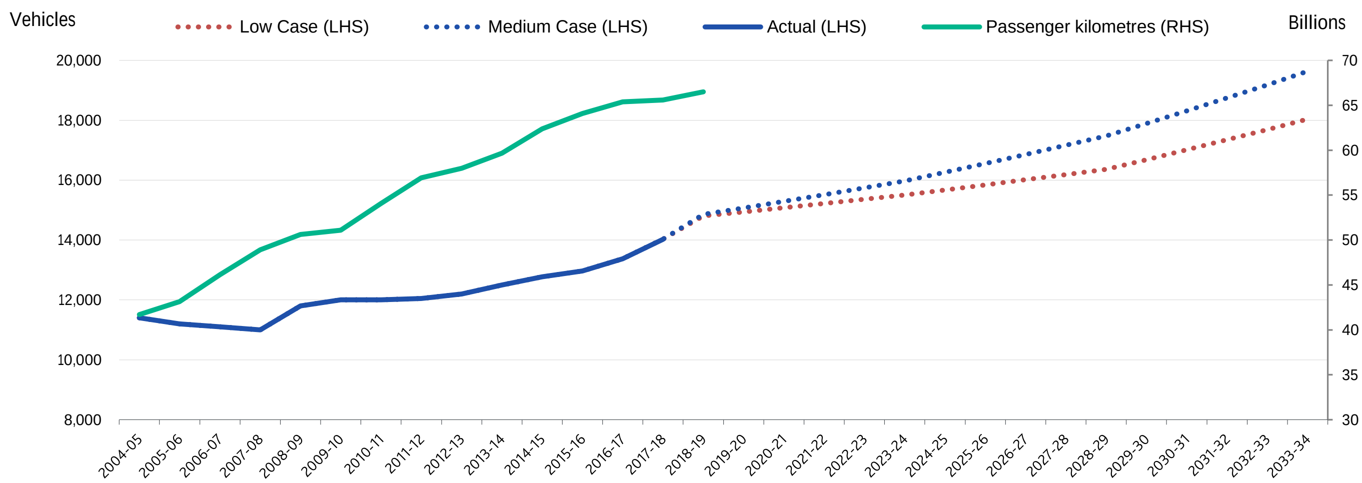
The outlook for rolling stock demand continues to be strong

Passenger rail usage (measured by the Office of Rail and Road (ORR) in passenger kilometres) has more than doubled, from 29.7 billion in 1995 to 66.5 billion in 2018. However, the UK passenger rolling stock fleet only increased by 23% in the same period.

The Rail Delivery Group, an industry group that forecasts long term passenger fleet growth, predicted, in its most recent outlook published in March 2018, that this growth will continue and that the fleet size will increase from the 13,377 vehicles at 2016/17 to between 18,527 (low case) and 24,943 (high case) by 2046, an increase of between 41% and 89%. Exhibit 3 below demonstrates the low and medium case forecast for the next 15 years.

Exhibit 3

Passenger kilometres have more than doubled since privatisation, but the number of rolling stock vehicles has only increased by 23%



Source: Moody's, LTRSS 6th edition, Office of Rail and Road

Passenger kilometre growth over the past two years has been weak, averaging 1.1% per annum. This weakness appears to have been at least partly due to timetable issues, engineering works and industrial action.

Passenger kilometre growth for the first nine months of 2019 (compared with the first nine months of 2018) recovered to a robust 3.5%, with growth of 12.2% and 6.3% recorded on two of the franchises impacted by operational issues in 2017 and 2018, Northern and TSGN, respectively, compared with average annual growth on these franchises over 2017 and 2018 of -0.5% and 1.4%, respectively.

A sustained reduction in passenger demand would be negative for the sector in the long run as it could result in reduced demand for rolling stock.

Angel Trains' 2018 performance was in line with expectations, and we expect a similar outcome for 2019

As almost all of the group's passenger trains are leased under relatively long leases, near term revenues are generally highly predictable and stable. Security Group revenue in the year ended 31 December 2018 was £527.5 million, which was higher than the 2017 total of £495.2 million. Similarly, the 2018 EBITDA of £419.8 million, was substantially higher than the 2017's £376.2 million, largely driven by increased deferred revenue and reduced heavy maintenance costs during the year. Capital expenditure of £203 million was broadly in line with the previous year. Net debt to EBITDA reduced to 4.4x (from 4.9x in 2017) due to the higher EBITDA and a stable net debt amount.

While re-leasing risks have increased for the industry, Angel Trains has been successful in re-leasing key fleets

The UK train fleet is undergoing a major renewal, in which large numbers of trains will be displaced by newly built vehicles. Until recently, UK rolling stock leasing companies (ROSCOs) have enjoyed near 100% utilisation of their passenger train fleets, allowing them to generate consistent lease revenues for the full life of their trains, which is frequently assumed to be 35 years. But because some of the vehicles that will now be displaced are still relatively new, this may pose a revenue risk for ROSCOs.

The DfT has taken steps to address this underinvestment and the UK train fleet is currently being transformed. Over the past five years, around 7,000 new vehicles (48% of the total) have been ordered. Large numbers of carriages are being displaced to make way for these new trains although some of the new trains are also being procured to meet additional capacity requirements.

Over the past three years in particular, several new train orders have been made through the traditional franchising route, starting with the East Anglia franchise award in August 2016 that included a new build order for Abellio's entire fleet, for over 1,000 vehicles. It was followed by the March 2017 announcement that the new South Western franchise operator, a joint venture between FirstGroup and MTR, would procure 750 new vehicles. The West Midlands and Wales & Borders franchise announcements added a further 830 new vehicles to the order list. In total, 2,500 new train vehicles were ordered over a period of just over two years, displacing a similar number of existing vehicles.

Of the approximately 800 vehicles across the wider industry that we believe are at a high risk of not being re-leased and of having their revenues curtailed from the end of their current lease, Angel Trains owns just 150, a fleet of class 707 Desiro City trains operating on the South Western franchise. These trains only entered service in 2017 and 2018.

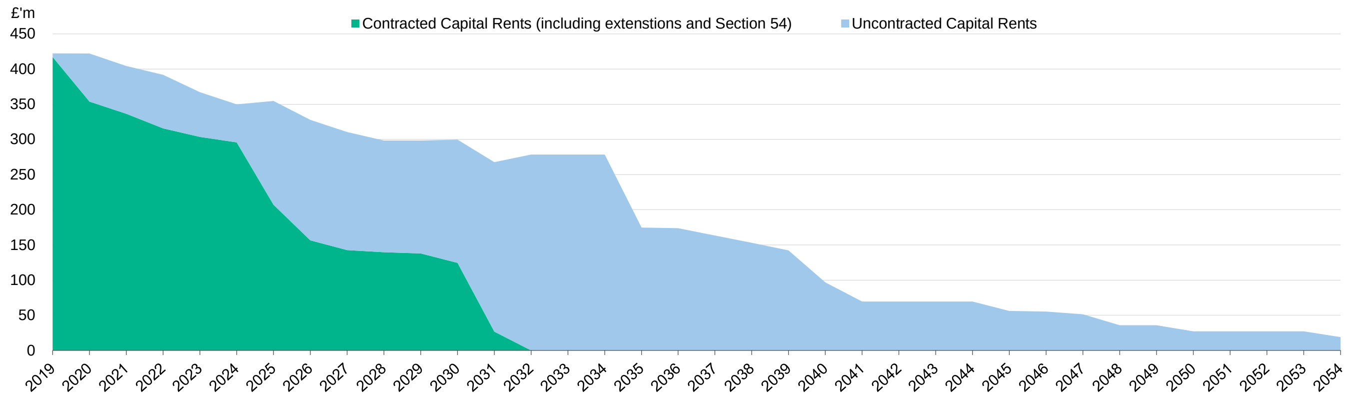
The new South Eastern franchise award was expected in April 2019. However, the franchise has been extended until at least April 2020 and the DfT has terminated the competition for the new franchise. The delay is positive for incumbent train lessors, including Angel Trains, as their fleets are likely to be leased on the franchise until a new franchising process has been concluded and any new trains delivered. This provides upside to our revenue forecasts, where we assume that these vehicles will cease to generate revenues once they are displaced from South Eastern.

Angel Trains has already made arrangements to cascade the other fleets that are being displaced into other franchises, at lease rates that are broadly as forecast. The class 350 trains displaced from the TransPennine Express franchise have been cascaded to the West Midlands franchise, joining Angel Trains' other 160 units. as part of the Angel Trains portfolio strategy to lease all of their class 350s on a single franchise. The 84 class 360 vehicles displaced from the East Anglia franchise will be cascaded to the East Midlands franchise once they are returned from their current lease. In total, Angel Trains has cascaded 16 fleets since 2017, including the placement of older assets (high speed trains to Scotland and class 442s on South West) that will continue earning revenue beyond that original life expectancy.

While the number of Angel Trains' mid-life vehicles displaced to date has been modest and there are limited near-term lease expiries, we anticipate that there will be ongoing pressure on lease rates over the medium term due to i) a surplus of mid-life rolling stock, especially EMUs and ii) the low cost of new build alternatives. Angel Trains is partially insulated from lease price exposure over the next two years as they have leased a large proportion of their portfolio in recent years.

In the longer term, however, we expect that the fundamentals driving recent displacement will moderate. DfT bid criteria that can be achieved with existing trains, robust bidding solutions from incumbent train owners, gradually increasing interest rates, lower franchising activity and easing manufacturer competition may combine to reduce the frequency of mid-life fleet displacement from recent levels.

Exhibit 4
Angel Trains' revenues are subject to re-leasing risk



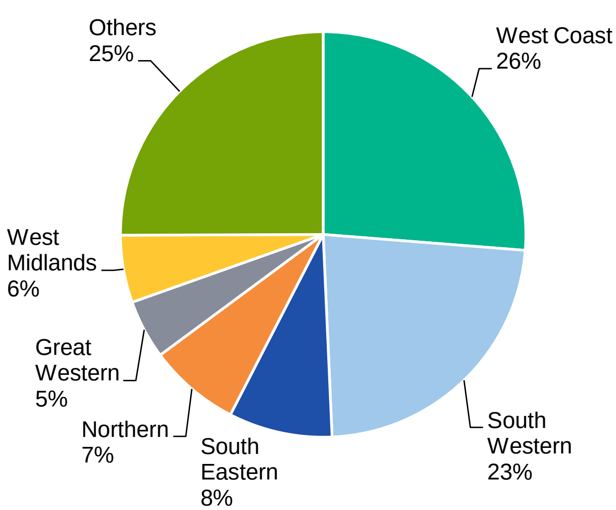
Source: Angel Trains, Moody's

Angel Trains' has benefited from delays to new train deliveries and new franchise awards

As a result of delays in both delivery of new trains and delay in new franchise awards, Angel Trains has secured lease extensions, allowing fleets that would otherwise have been taken out of service to earn additional revenues.

In 2019, Angel Trains' largest fleet, by revenue, the class 390 Pendolino fleet, secured a lease extension on the West Coast franchise until March 2026.

Exhibit 5
Angel Trains current lease revenue by franchise



Source: Angel Trains, Moody's

Liquidity & Financing Analysis

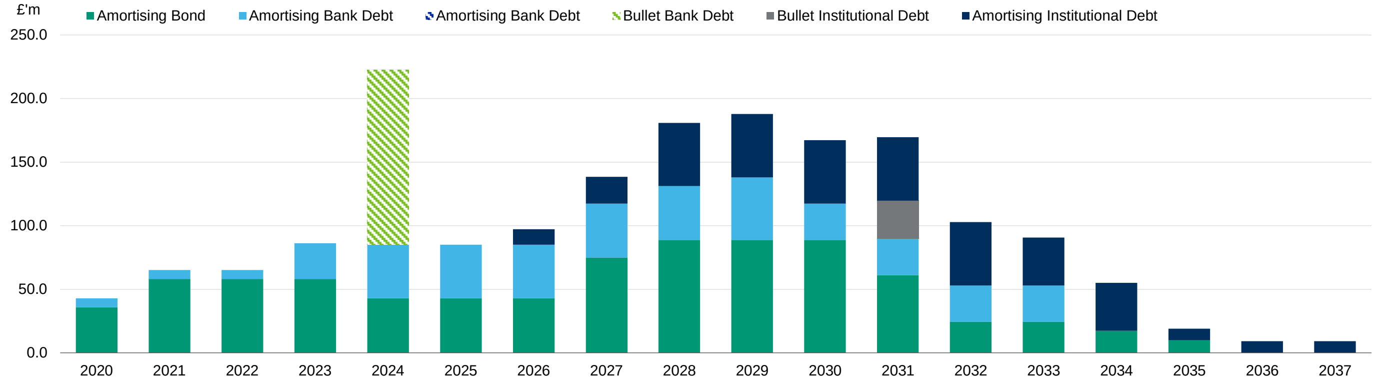
During 2019 Angel Trains' lenders extended the maturity of its £350 million revolving facility to October 2024. The revolving facility had a drawn balance of approximately £100 million at the end of November 2019.

During 2019, the Group refinanced £125 million of junior debt with a forward starting (April 2020) facility that matures in April 2027, as well as a bi-lateral £50m junior facility with a seven year tenor.

The bullet bond maturity of July 2020 will be refinanced via a 15 year, amortising £300 million bank facility that has a forward start of April 2020.

Exhibit 6

Senior debt maturity profile



Source: Angel Trains, Moody's

Rating Methodology and Scorecard Factors

The principal methodology used in rating the Issuer is Generic Project Finance, published in November 2019.

Exhibit 7

Generic Project Finance Methodology

Factor	Subfactor	Metric	Score
1. Business Profile	a) Market position		Baa
	b) Predictability of Net Cash Flows		Baa
2. Operating Risk	a) Technology		A
	b) Capital Reinvestment		A
	c) Operating Track Record		A
	d) Operator and Sponsor Experience, Quality and Support		Baa
Project Risk			**Low**
3. Leverage and Coverage	a) Debt Service Coverage Ratio	1.42x	Baa
	b) Project Cash from Operations / Adjusted Debt	11.3%	Baa
Preliminary Scorecard Indicated Outcome before Notching:			**Baa2**
Notching Considerations			**Notch**
	1 - Liquidity		0
	2 - Structural Features		-0.5
	3 - Refinancing Risk		0
	4 - Construction and Ramp-up Risk		0
	5 - Priority of Claim, Structural Subordination and Double Leverage		0
Preliminary Scorecard Indicated Outcome before Offtaker Constraint:			**Baa2**
	Offtaker Constraint Applied?		No
	Level of Offtaker(s) Constraint		n/a
Indicated Rating from Grid [1]			**Baa2**
Actual Rating			**Baa2**

[1] Indicated rating from grid denotes a scorecard output and is not a Moody's published rating.
Source: Moody's

Peer Comparison

Exhibit 8

UK ROSCO Peer Comparison

At Dec 2018 unless stated otherwise	Eversholt Rail	Porterbrook	Angel Trains
Shareholders	CK Hutchison Holdings Limited (indirectly 100%)	AIMCo (30%), Allianz Capital Partners (30%), a consortium of Utilities Trust of Australia, The Infrastructure Fund and the Royal Bank of Scotland Group Pension Fund (30% in aggregate), EDF Invest (10%)	AMP Capital (65%), PSPIB (30%), IPPL (5%)
Fleet (as at Sept 2019)			
UK market share	23%	26%	27%
Passenger vehicles	3,789	4,317	4,542
DMU (% of passenger)	9%	26%	24%
EMU (% of passenger)	68%	68%	49%
High Speed / Intercity (% of passenger)	23%	23%	28%
Weighted average fleet age	22 years	20 years	24 years
Leases			
% of rental income from passenger fleets	95%	97%	100%
% of dry / soggy leases	50% / 50%	75% / 25%	59% / 41%
Senior Debt			
Weighted average senior debt tenor	10.6 years	6.5 years	8.4 years
% of amortising style senior debt maturities	54%	44%	91%
Unutilised RCF size as a % of senior debt	31%	26%	14%
Moody's Projected Ratios [1]			
DSCR (whole life forward average)	1.32x	1.64x	1.42x
CFO / Debt (10 year forward average)	7%	9%	11%
Net senior debt / EBITDA (maximum)	7.8x (2031)	5.7x (2021)	5.0x (2019)
Net senior debt / EBITDA (20 year forward average)	6.6x	3.7x	3.9x
Debt / NPV of Capital Rents	53%	52%	50%
Interest cover (10 year forward average)	2.7x	3.4x	4.0x
Financial metric distribution lock-up			
Interest cover	1.75x	1.75x	1.75x
Net senior debt / EBITDA	7.0x	7.5x	7.5x
Net senior debt / NPV of net capital rentals	70%	n/a	n/a

1] Moody's ratio definitions do not align with ROSCO finance document definitions in all cases

Source:Moody's, Porterbrook, Eversholt Rail, Angel Trains

Ratings

Exhibit 9

Category	Moody's Rating
GREAT ROLLING STOCK COMPANY PLC, THE	
Outlook	Stable
Bkd Senior Secured -Dom Curr	Baa2

Source: Moody's Investors Service

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