MOODY'S
INVESTORS SERVICE

CREDIT OPINION
19 January 2021

Update

Rate this Research

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 (incorporating Angel Trains Group Limited)

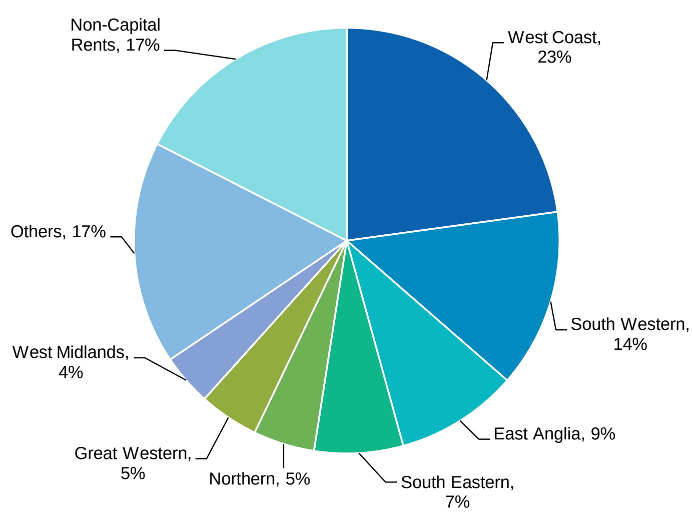
Update to credit analysis

Summary

Angel Trains' credit quality benefits from (1) the company's size and scale as the UK's largest rolling stock lessor, (2) strong operational performance since privatisation in 1994, 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) revenue is solely derived from passenger vehicle rental rather than the more volatile freight rental sector and (5) the protective features of Angel Trains' ring-fenced financing structure.

Credit quality is constrained, however, by (1) exposure to rolling stock re-leasing risk and (2) the potential for adverse rail industry regulatory change.

Exhibit 1
Angel Trains 2021 revenue split by franchise



Notes : (1) East Anglia figure is based upon the lease revenue generated once all new vehicles are delivered, (2) individual franchise figures represent vehicle rental revenue (i.e. capital rent) only and exclude non-capital rent
Source: Angel Trains, Moody's

Credit strengths

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

» Stable rail industry regulatory environment

» Very high historic fleet utilisation rates

» All revenue is derived from passenger vehicle rentals where demand is more predictable than for freight vehicles

Credit challenges

» Exposure to train re-leasing risk, which could result in (1) lower than forecast train utilisation rates or lease rates or (2) higher than forecast capex to modify or enhance trains

» Potential for adverse rail industry regulatory change

Rating outlook

The rating outlook is stable, reflecting our expectation of strong cash flow 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

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

» A sustained reduction in demand for commuter rail travel due to increased remote working practices following the coronavirus outbreak, if it results in large numbers of trains with residual economic value coming off lease. Whilst contracted lease revenue is not dependent on passenger numbers or usage of trains, a long term decline in passenger demand may lead to operators leasing fewer vehicles, although previous overcrowding levels could dampen this impact.

Key indicators

Exhibit 2
Senior debt financial ratios

As reported	Lock-up level				
12 months ended		**Dec-16**	**Dec-17**	**Dec-18**	**Dec-19**
Turnover (£'m)		461	495	528	492
EBITDA (£'m)		353	376	420	419
Utilisation of Stock		97.9%	99.3%	98.5%	100%
Net Debt (£'m)		1783	1,859	1,846	1,970
Net Debt/EBITDA	7.50x	5.1x	4.9x	4.4x	4.7x
Interest Cover	1.75x	2.5x	2.7x	3.1x	3.3x

Source: Angel Trains, Moody's

Corporate profile

Angel Trains Limited, formed in 1994 as part of the privatisation of the UK rail market, is one of three incumbent rail rolling stock leasing companies (ROSCOs) in the UK. The company's rolling stock assets totaled 4,155 passenger train vehicles at December 2020.

Angel Trains Group Limited[1] is the parent company of Angel Trains Limited. Angel Trains (the Group) is the security ring-fenced group comprising Angel Trains Group 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.

Detailed credit considerations

Rental contracts remain in place during passenger franchise suspensions

Rail passenger numbers have averaged around 30% of the pre-coronavirus level. The number of rail services have averaged around 90% of the pre-coronavirus level, reflecting that services have mostly been maintained, despite reduced passenger demand, in order to allow social distancing. Fleet utilisation remains at 100% with operators rotating rolling stock. Angel Trains' vehicle lease income is not linked to asset usage or passenger volume.

All rental payments have been received from train operating companies[2] (TOCs) as scheduled. TOCs have been supported by the government as described below, which has allowed them to meet their lease obligations.

Emergency Measures Agreements, April 2020 - September 2020

In March 2020 DfT announced measures to support the rail sector during the coronavirus outbreak. TOCs running DfT franchises were offered the opportunity to temporarily transition onto Emergency Measures Agreements (EMAs). Under the EMAs, all revenue and cost risk was transferred to DfT. TOCs continued to run services for a pre-determined management fee.

The DfT's objective was to ensure vital travel services continued to operate for key workers and to enable a normal service to quickly resume when the coronavirus situation improves.

All lease contracts between Angel Trains and the franchised TOCs remained in place and income continued to be received. The DfT support enabled TOCs to continue paying vehicle lease costs even during a period of reduced passenger revenue.

Emergency Recovery Measures Agreements, September 2020 - March 2022

Following the expiry of EMAs in September 2020, the DfT introduced Emergency Recovery Measures Agreements (ERMAs) which function similarly to EMAs except they are commercially different for the TOCs with tenors ranging from 6 to 18 months.

Direct Award, March 2021 - March 2028

Direct awards will be implemented subsequently and will run until around each original franchise expiry date. Thereafter the TOCs will be subject to a new contractual framework, which is being considered as part of the Williams Rail Review (which is described later in this report). Existing contracted vehicle leases will remain in place until the contractual end date.

East Anglia Class 720s transfer does not materially alter credit profile

In December 2020 Angel Trains transferred an SPV, Angel Trains Rolling Stock Limited (ATRSL), into the senior debt ring-fence. ATRSL has entered into arrangements to procure and subsequently lease 665 electric multiple unit (EMU) Aventra Class 720 vehicles. Following the transfer all ATRSL vehicles, contracts, debt and cash are incorporated in the senior debt ring-fence.

Angel Trains had previously arranged the SPV financing in 2017

In 2016 the DfT announced that it had selected Abellio to continue to operate the rail services within the East Anglia franchise area until 2025. As part of this process Abellio agreed to lease 665 new vehicles from Angel Trains. In 2017 Angel Trains transferred the new build assets and the associated financing agreements into the SPV from a separate construction financing facility (please refer to our 2017 Issuer Comment for further details). Therefore, Moody's financial projections have not previously incorporated revenues or financing costs associated with the Class 720s.

Net debt has increased by around £390 million following the ATRSL transfer

ATRSL's debt financing comprises £428 million fixed rate notes and £397 million committed bank debt (which is fully hedged) of which £160 million was drawn as of 31 December 2020. The debt partially amortises and has a balloon repayment in December 2027. The incoming lenders have acceded to the senior debt intercreditor and security agreements. Therefore as a result of the Class 720s transfer, Angel Train's overall debt outstanding increased by around £590 million[3].

ATRSL also held approximately £200 million in cash (derived from debt drawdowns and manufacturer liquidated damages), all of which has now moved into the ring-fence[4].

The remaining purchase price on the Class 720s is approximately £400 million. ATRSL's approximately £200 million cash and £240 million undrawn bank debt is sufficient to pay the remaining purchase price, therefore no additional debt funding is required.

Angel Trains has made some advance payments to the manufacturer Bombardier. These are protected through advance payment bonds provided by A3 or higher rated entities. Liquidated damages (LDs) are payable by Bombardier for delays and are currently being paid.

The majority of vehicles are expected to be delivered in 2021

Approximately 60 vehicles are in passenger service with full fleet delivery expected during 2021. Over 350 vehicles have been assembled in total and are located in the UK awaiting final commissioning. The remaining vehicles are being manufactured by Bombardier in the company's factory in Derby (UK).

Angel Trains do not expect that the UK's new trade relationship with the European Union (EU) from 31 December 2020 will have a significant adverse impact on the new vehicle manufacturing supply chain (and as mentioned previously, Angel Trains has contractual protections against delays). Positively the new UK-EU trade agreement will not introduce any tariffs or quotas on goods. Please refer to Moody's report Post-Brexit trade agreement is credit positive for UK domestic issuers for additional details regarding the trade agreement.

The transfer will reduce the average age of the portfolio to 21 years on final delivery whilst further increasing the proportion of electric versus diesel units. It is expected to increase annual revenue by around £53 million once all vehicles are delivered.

Angel Trains' increased leverage remains within the guidance range

Angel Trains' net debt to EBITDA will increase by around 0.75x following the ATRSL transfer. This reflects that the standalone Class 720 fleet net debt to EBITDA is significantly greater than the rest of the company. This is because the Class 720 fleet will increase annual revenue by around £53 million compared to committed debt of over £800 million. However, the company's leverage will remain below the 6.5x level noted in the 'Factors that could lead to a downgrade' section.

The Class 720 fleet will increase the expected net present value (NPV) of future revenue, because it is a new fleet with over 30 years useful economic life. The projected debt to revenue NPV ratio has not changed significantly following the ATRSL transfer. This reflects that whilst debt has increased, revenue NPV has also increased.

Limited Brexit and coronavirus impact on Angel Trains' supply chain

As noted above, the new build vehicle delivery is not expected to be adversely affected by the final Brexit arrangements. In addition, the Bombardier factory remains open and productive despite coronavirus-related restrictions throughout the EU and UK. Similarly, heavy maintenance and refurbishment works are not expected to be adversely affected by Brexit or coronavirus restrictions. Supplier factories and working practices have been reconfigured to comply with coronavirus safety measures and, on the whole, remain open and productive.

Lease renewals supported by DfT direct awards

2019 and 2020 saw several direct awards granted by DfT. This involves the existing TOC being awarded a new franchise agreement without a full competitive tender process. This approach is partly due to the delay in the Williams Rail Review which is expected to propose changes to the franchising process. In particular, the DfT granted direct awards on the Southeastern and Great Western franchises

Exhibit 3

Recent direct awards

Franchise	Franchise terms	Impact on Angel Trains
Southeastern	DA from April 2020 to October 2021 with DfT option to extend to March 2022	C465s and C466s lease extension to October 2021
Great Western	DA with a term of 3 years ending March 2023 with an option for a further 12 months extension	Angel Trains' fleets have been re-leased for the duration of the franchise
Cross Country	DA signed with a term of 3 years ending October 2023.	19 HSTs were extended until October 2023. In addition, 2 more HSTs were cascaded

Source: Angel Trains, DfT

The Southeastern franchise was extended from March 2020 to October 2021 resulting in lease extensions of 200 Class 465s and 86 Class 466s until October 2021. In addition 150 Class 707 vehicles (which are around 3 years old on average) cascaded into the franchise in September 2020 from the South Western franchise, with the expectation that the fleet will remain there in the long-term. South Western had procured new Class 701 trains from another ROSCO which meant that the Class 707s were no longer required.

The Great Western franchise was extended from March 2020 to March 2023, which extended the lease period for 41 HSTs, 6 Class 150s, 88 Class 165s and 63 Class 166s through to March 2023.

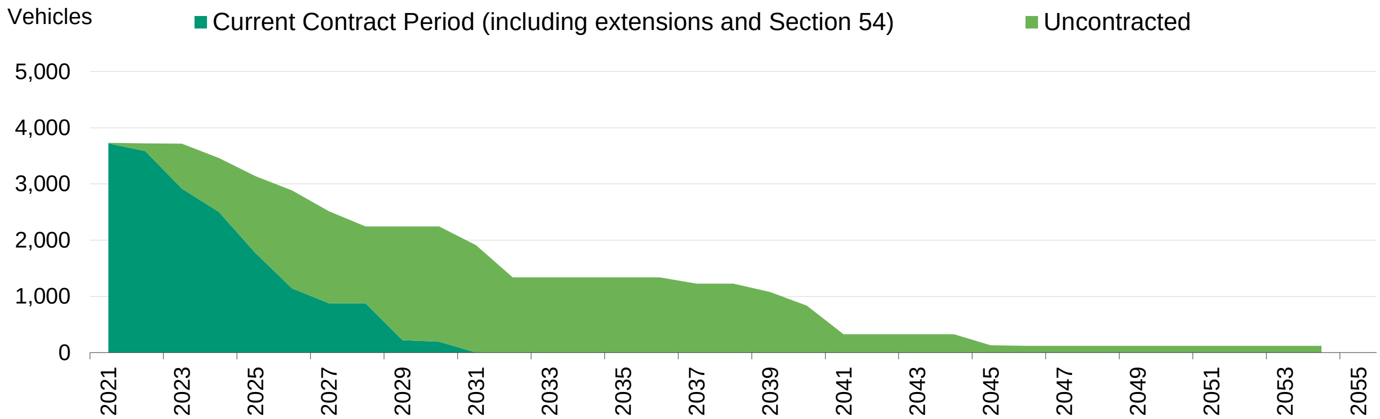
Limited re-leasing risk in 2021

Angel Trains does not face significant re-leasing risk in 2021. The largest fleets due for re-lease are 286 Networkers (Class 465 and Class 466 vehicles that are 27 years old on average) and 150 Class 707 vehicles (that are around 3 years old on average) on the LSER franchise. DfT has a franchise extension option to March 2022 that could push the re-lease date into 2022. In addition, we expect that the earliest that new vehicles could be procured to replace the aged Class 465 and 466 vehicles is in 2023 which provides some further support for re-leasing. In 2023 the Class 465 and 466 vehicles will be 30 years old with limited useful life remaining. The overall LSER fleet accounts for approximately 8% of current annual rental revenue.

In addition, 89 Chiltern Class 165 (around 1% of annual revenue) and 32 East Midland Class 158 (less than 1% of annual revenue) vehicles come off lease on 31 December 2021. Angel Trains expect that there is a high likelihood of re-leasing the Class 158s and Class 165s.

During the January 2021 to December 2023 period, around 33% of vehicles are expected to come off-lease. Out of these, around 40% are at the end of their lives. Therefore, only around 20% of the existing fleet will face re-leasing risk during this period, reflecting Angel Trains' strong recent re-leasing performance with higher risk fleets having already been cascaded.

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



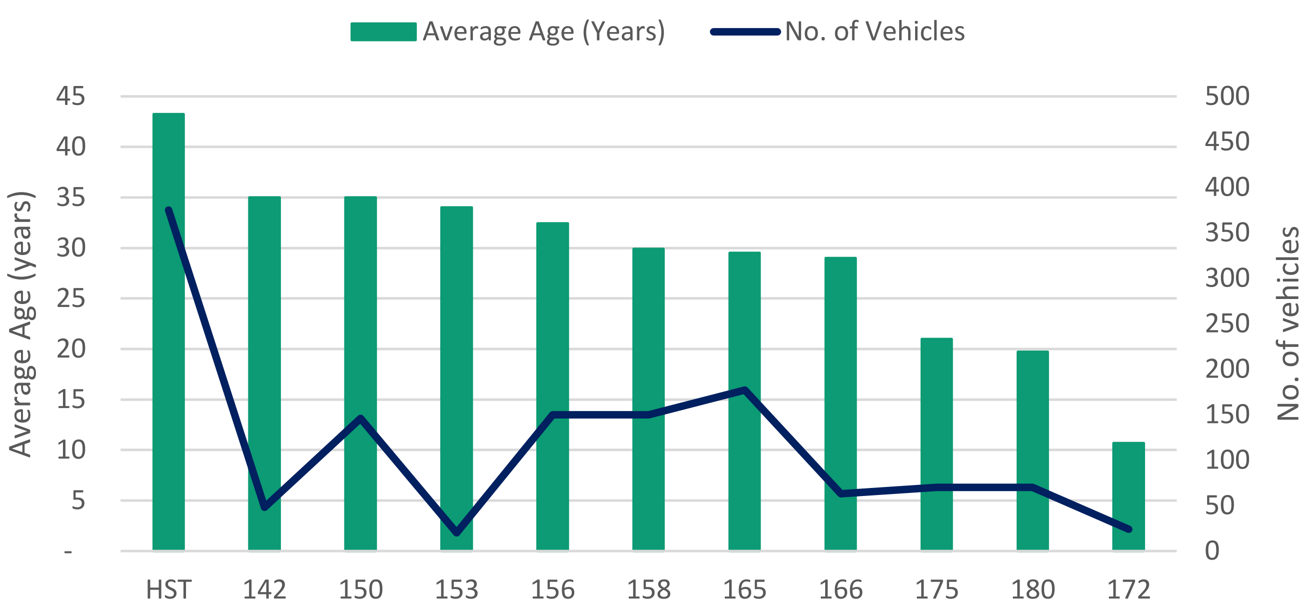
Source: Angel Trains, Moody's

Limited revenue exposure to diesel vehicles

Diesel multiple units (DMUs) contributed less than 20% of capital rents and many are leased until the end of their useful lives. The chart below demonstrates that the large majority of Angel Trains' DMUs are close to or greater than 30 years old.

Angel Trains has procured only 24 DMU vehicles during the last 18 years. Less than 10% of portfolio rents are forecast to be derived from the diesel and diesel HST fleet by 2026. The portfolio is largely diesel-free by the end of 2030.

Exhibit 5
Angel Trains' DMU fleet by vehicle classification



Source: Angel Trains, Moody's

Williams Rail Review publication has been delayed

The Williams Rail Review was established by the government in 2018 (under the supervision of former British Airways chief executive Keith Williams) to assess the entire rail sector with a focus on how passenger rail services are delivered. The publication of the review had been expected in 2020 but has been delayed.

Angel Trains 2019 financial results show stable EBITDA performance

As almost all of the group's passenger trains are leased under relatively long leases, near term revenues are generally highly predictable and stable. Group revenue in the year ended 31 December 2019 was £492.3 million, which was lower than the 2018 total of £527.5 million. The decrease in revenue was mainly due to a decrease in maintenance lease rentals due to a delay on related maintenance performance obligations. This decrease was offset by a decrease in heavy maintenance costs. Therefore, the 2019 EBITDA of £419.2 million, was similar to the 2018's £419.8 million. Capital expenditure (capex) of £244 million was broadly in line with the previous year. Net debt to EBITDA increased to 4.7x (from 4.4x in 2018) due to a temporary increase in senior debt to repay junior debt[5].

Drivers of recovery prospects

In the event of a debt default the debt recovery is expected to be high. This is driven by the standard project finance structural protections such as restrictions on the borrower, creditor controls and strong lock-up and default financial ratio tests. The asset technology is well-proven. Therefore the assets should continue generating revenue even in a debt default scenario. However partially offsetting these strengths, the sector is competitive and asset re-leasing is not guaranteed.

Liquidity and financing analysis

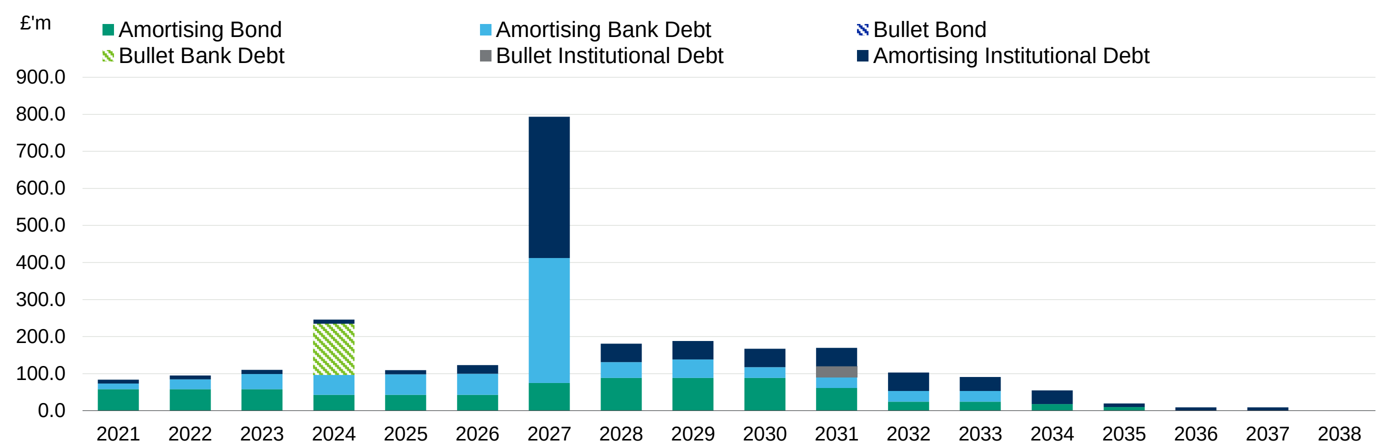
The company extended its £350 million revolving credit facility (RCF) to October 2025 (except for £34 million from one bank which opted not to extend and will remain with an October 2024 maturity). As of 31 December 2020 none of the RCF was utilised placing Angel Trains in a strong liquidity position.

The £300 million July 2020 bullet bond was refinanced through amortising debt maturing in 2033. The next material refinancing is in 2024 for £137.5 million of bullet bank debt.

No distribution to shareholders was paid in 2020 on a voluntary basis.

Exhibit 6

Senior debt maturity profile



Source: Angel Trains, Moody's

ESG considerations

The UK government has a goal of transport decarbonisation to help achieve its climate change goals. In July 2019 the Rail Industry Decarbonisation Taskforce published its 'Final Report for The Minister for Rail'. This study was commissioned in response to the government's ambition to remove 'all diesel only trains off the track by 2040' as well as the government's wider target (set by law) of net zero carbon emissions by 2050. These targets are likely to accelerate demand for new technology (for example hydrogen) self-powered units to operate on non-electrified track, electric/battery bi-mode multiple units and additional electric multiple units. As noted previously in the report, Angel Trains has limited exposure to diesel trains after 2030. In addition, Angel Trains continues to research alternative technologies including batteries and different fuel mixes.

During the coronavirus pandemic, remote working has become popular within certain industries. Remote working will remain to some extent after the immediate health crisis subsides. This would reduce the number of passengers traveling to and from city centres at peak times. Whilst contracted lease revenue is not dependent on passenger numbers or usage of trains, a long term decline in peak demand may lead to operators leasing fewer vehicles. However, previous levels of overcrowding on certain services may limit the reduction in vehicles even if passenger demand reduces.

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	1.50x	Baa
	b) Project Cash from Operations / Adjusted Debt	10.6%	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
Scorecard Indicated Rating [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

Updated as of the date	Eversholt Rail (as of Mar 2020)	Porterbrook (as of June 2020)	Angel Trains (as of Dec 2020)
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			
Passenger vehicles	3,584	3,910	4,155
Diesel (% of passenger)	12%	33%	31%
Electric (% of passenger)	69%	66%	66%
High Speed / Intercity (% of passenger)	26%	4%	23% (60% electric; 40% diesel)
Weighted average fleet age [2]	20 years	21 years	23 years
Leases			
% of rental income from passenger fleets	96%	95%	100%
% of dry / soggy leases	50% / 50%	75% / 25%	70% /30%
Senior Debt			
Weighted average senior debt tenor	9.6 years	6.4 years	6.9 years
% of amortising style senior debt maturities	54%	54%	93%
Unutilised RCF size as a % of senior debt	27%	28%	14%
Moody's Projected Ratios [1]			
DSCR (whole life forward average)	1.31x	1.64x	1.50x
CFO / Debt (10 year forward average)	6%	9%	11%
Net senior debt / EBITDA (maximum)	7.8x (2031)	5.5x (2024)	5.53x (2027)
Net senior debt / EBITDA (20 year forward average)	6.7x	3.8x	4.4x
Debt / NPV of Capital Rents	58%	50%	48%
Interest cover (10 year forward average)	2.6x	3.4x	4.1x
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

Endnotes

1 Previously called Willow Bidco Limited

2 Train operating companies provide the passenger rail service and typically lease vehicles from ROSCOs

3 Being the aggregate of the £428 million fixed rate notes and the £160 million drawn bank debt

4 Therefore net debt increased by around £390 million, being the £588 million drawn debt less the cash balance)

5 The junior debt has since been re-drawn

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