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CREDIT OPINION
15 February 2022

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

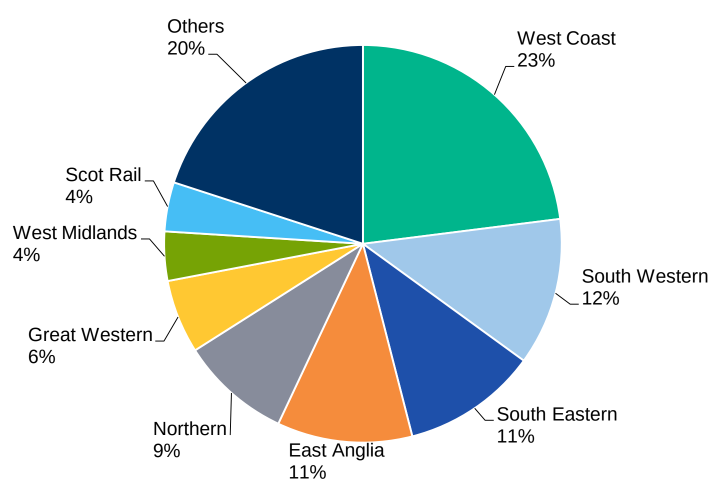
Summary

Angel Trains' credit quality benefits from (1) the company's size and scale as a leading UK rolling stock lessor, (2) strong operational performance since privatisation in 1994, with close to 100% rolling stock utilisation rates, (3) a track record of stable industry oversight and support from the UK Department for Transport (DfT), (4) revenue is predominantly derived from passenger vehicle rental, with no exposure to the more volatile freight rental sector, (5) revenue is not linked to passenger volumes or ticket sales and (6) 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 change in rail industry regulation or travel habits.

Exhibit 1

Angel Trains 2021 revenue by franchise (rental and non-rental)



Notes: East Anglia figure is based upon revenue generated once all new vehicles are delivered
Source: Angel Trains, Moody's

Credit strengths

» Significant size and scale with over 4,000 passenger rolling stock vehicles

» Stable rail industry regulatory environment

» Very high historic fleet utilisation rates

» Almost 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 changes in rail industry regulation or travel habits

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 deterioration in the stable and supportive regulation of the passenger rail sector

» A sustained reduction in demand for commuter rail travel, if it results in large numbers of trains with residual economic value coming off lease, due to either (1) increased remote working in place of travelling to a workplace or (2) increased ticket prices due to government budget constraints resulting in reduced subsidies for the rail sector. Whilst contracted lease revenue is not dependent on passenger numbers or usage of trains, a long term decline in demand may lead to operators leasing fewer vehicles

Key indicators

Senior debt financial ratios

As reported	Lock-up level				
12 months ended		**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**
Turnover (£'m)		495	528	492	518
EBITDA (£'m)		376	420	419	438
Utilisation of Stock		99.3%	98.5%	100.0%	100.0%
Net Debt (£'m)		1859	1,846	1,970	2,118
Net Debt/EBITDA	7.50x	4.9x	4.4x	4.7x	4.8x
Interest Cover	1.75x	2.7x	3.1x	3.3x	3.5x

Source: Angel Trains, Moody's

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 3,948[1] passenger train vehicles at December 2021 with a further 440 vehicles scheduled to be delivered in 2022.

Angel Trains Group Limited[2] 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

Williams Shapps Plan for Rail not expected to negatively affect Angel Trains' operations

In May 2021 the Williams Shapps Plan for Rail (WSP) government white paper was published. The key elements of the WSP are outlined below:

» Establishment of a new body, Great British Railways (GBR), which will bring the rail network in England under single national leadership. GBR will absorb the current rail infrastructure manager Network Rail, as well as taking over various functions from other bodies (for example collecting fare revenue, running and planning the network, and setting most fares and timetables).

» As widely expected within the industry, the WSP ends the pre-pandemic train operating company (TOC) franchise system, under which TOCs took ticket revenue risk. The aim is to transition over a number of years to Passenger Service Contracts (PSC), under which GBR will take revenue risk and pay TOCs a management fee with some performance bonus elements. The PSC is therefore conceptually similar to the Emergency Recovery Measures Agreements (ERMAs) that TOCs were subject to during the pandemic. National Rail Contracts (NRCs) will be used to transition from ERMAs to PSCs. NRCs are described in more detail below, however they are conceptually similar to ERMAs and PSCs.

» The WSP does not contemplate any change to the rolling stock procurement model or the role of private sector train leasing companies. However GBR may take a more active roll in rolling stock procurement under PSCs. The form of this is currently unclear.

In Scotland and Wales the rail operators will shortly be or are nationalised[3] (and continue to lease vehicles from the private sector ROSCOs) and the WSP does not change this. The establishment of GBR will require primary legislation in the UK Parliament.

Rental contracts remain in place during passenger franchise suspensions

Since the lifting of the UK's first set of movement restrictions in June 2020, rail passenger numbers have ranged from around 20% to 70% of the pre-coronavirus level. Angel Trains' vehicle lease income is not linked to asset usage or passenger volume.

All rental payments have been received from TOCs[4] as scheduled. TOCs have been supported by the government as described below, which has allowed them to meet their lease obligations.

The various government support schemes are described below.

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 depending on the rail service franchise.

National Rail Contracts, March 2021 onwards

National Rail Contracts (NRCs) will be implemented subsequently and will run until around each original franchise expiry date. The NRCs function similar to EMAs and ERMAs, with the TOC not taking revenue risk.

The existing contracted vehicle lease terms will remain in place until the contractual end date. The NRCs are non-competitive processes where DfT and the incumbent TOC negotiate terms for the TOC to continue passenger rail service provision. Some TOCs have already signed NRCs whilst others are still within ERMAs.

At expiry of the NRCs, the TOCs are expected to be subject to competitively awarded PSCs as outlined in the WSP.

Angel Trains has minimal exposure to Hitachi fleet defects

Angel Trains' Class 802 fleet was manufactured by Hitachi. The company has 120 vehicles on lease. For the Class 802s, cracks were identified around the lifting points area (this area is only used when trains are in the depot rather than during passenger service). Following a technical inspection, all vehicles were deemed safe to operate and rental payments continue to be received. Hitachi is preparing a repair programme for the Class 802 fleet - Angel Trains will not face any associated cost.

Angel Trains has been compensated for manufacturing delays on the East Anglia Class 720s

As noted in the January 2021 Credit Opinion, 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 (comprised of 133 x 5-car units) 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 before December 2020 did incorporate revenues or financing costs associated with the Class 720s.

Angel Trains has been compensated for fleet manufacturing delays

Full fleet delivery had been expected in 2021. However to date only approximately 250 vehicles have been delivered (these are all in passenger service now). The current expectation is that all remaining vehicles will be provided by December 2022.

Angel Trains is receiving manufacturing delay liquidated damages - these have been incorporated into the 2021 actual results and 2022 financial projections.

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.

Angel Trains has sufficient funds to pay the remainder of the manufacturing contract

At the point of migration in December 2020, ATRSL's debt financing comprised £428 million fixed rate notes and £397 million committed bank debt (which is fully hedged) of which around £155 million was drawn as of December 2021. The bank debt was prepaid recently with the proceeds of a new £600 million debt facility (which is described in further detail in the 'Liquidity and financing analysis' section below). There is approximately £197 million of the new debt facility available to fund remaining manufacturer payments. The incoming lenders have acceded to the senior debt intercreditor and security agreements.

Initially ATRSL held approximately £200 million in cash (derived from debt drawdowns and manufacturer liquidated damages), all of which was transferred into the ring-fence. As of 31 January 2022 Angel Trains held £33 million cash.

The remaining purchase price on the Class 720s is approximately £280 million. ATRSL's approximately £33 million cash, £197 million undrawn bank facility and undrawn £290 million revolving credit facility is sufficient to pay the remaining purchase price, therefore no additional debt funding is required.

Angel Trains successfully re-leased the Southeastern fleet for a further three years

In September 2021, the UK Department of Transport (DfT) announced that it would strip Govia (the train operating company on the South Eastern franchise) of the franchise because of alleged breaches by Govia of the franchise agreement.

Since 17 October 2021, the passenger rail service has been directly operated by DfT under its Operator of Last Resort scheme. DfT has been operating the London North Eastern Railway (LNER) and Northern franchises under the OLR scheme since 2018 and 2020 respectively

Angel Trains' leases on the franchise (representing 436 vehicles) were due to expire in October 2021. These were re-leased to the DfT OLR until October 2024. The assumed monthly revenue is slightly lower than forecast last year, however the re-lease is longer than anticipated. Overall lease life revenue is similar to last year's forecast.

Summary of key fleets and lease status

Exhibit 3

Angel Trains' most significant fleets by revenue contribution

Franchise	Fleet	Number of vehicles	Lease expiry	Service entry year	Comment
West Coast	Cl 390s	574	March 2026	2005	
East Anglia	Cl 720s	665	September 2024	2020	New trains. Appox. 200 vehicles delivered to date
South Western	Cl 450s, Cl 444s	508 / 225	August 2024	2004	Section 54 till April 2025 [1]
Transpennine	Cl 802s	95	May 2023	2019	
South Eastern	Cl 707s, Cl 465s, Cl 466s	150 / 136 / 86	October 2024	Cl 707 in 2017 Cl 465/466 in 1993	Cl 465s and Cl 466s are re-leased to the end of their UEL [2]. An additional 64 x Cl 465s are on lease for peppercorn rent and will be used if passenger demand recovers
Great Western	Cl 165s, Cl 166s	88 / 63	March 2023	Cl 165 in 1991 Cl 166 in 1993	
West Midlands	Cl 350s	200	April 2026	2014	
C2C	Cl 357	112	November 2029	2001	

[1] Section 54 undertaking is a government commitment that the assets will remain on lease on substantially the same terms
[2] UEL = useful economic life
Source: Moody's, Angel Trains

Angel Trains faces regular re-leasing risk, with a strong track record of managing this

As common in the UK passenger rolling stock market, lease tenors are typically around 5 - 7 years. Angel Trains has a track record of successfully re-leasing vehicles. The key fleets with lease expiries in the next two years are listed below:

» 508 x South Western Class 450s and 225 x Class 444s are expiring in August 2024

» 88 x Great Western Class 165s and 63 x Class 166s expiring in March 2023

» 112 x C2C Class 357 expiring November 2029

» 95 x Transpennine Class 802s in May 2023

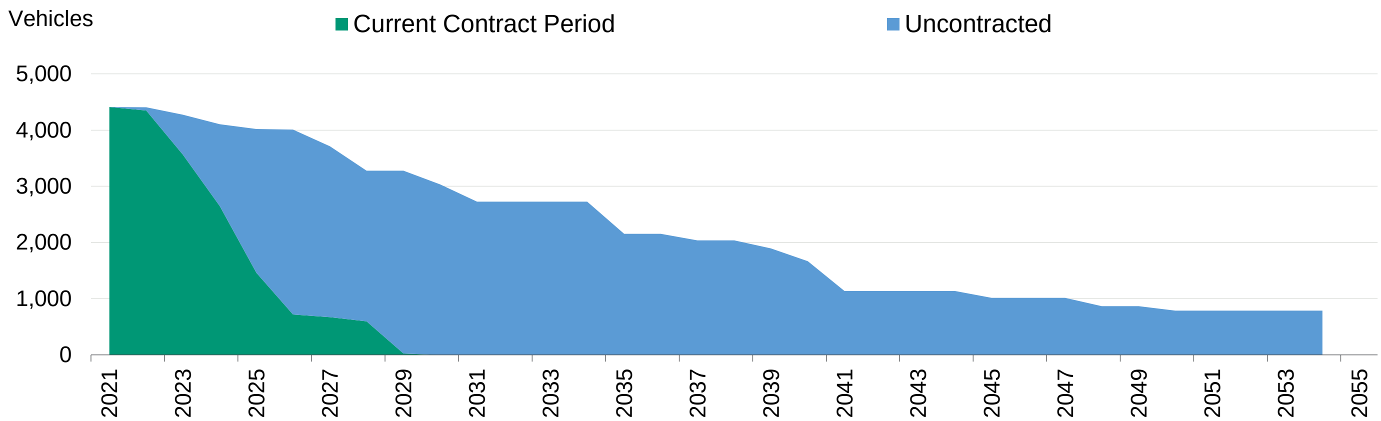
» 84 x ScotRail Class 156s have a lease expiring in March 2022.

Over January 2022 to December 2023, around 22% of vehicles are expected to come off-lease. Out of these, around 41% are at the end of their useful economic lives. Therefore, only around 13% 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.

The chart below shows the Moody's base case projected number of vehicles leased over time. As noted earlier, currently contracted leases are relatively short term in tenor.

Exhibit 4

Angel Trains' projected revenues are subject to re-leasing risk



Source: Angel Trains, Moody's

Angel Trains recently acquired Readypower Group

In January 2022 Angel Trains acquired the specialist rail and infrastructure service provider Readypower Group. Readypower provides specialised on-track plant equipment as well as civil engineering, drainage, haulage and operating services to the UK rail sector. In particular the company has a diverse hire fleet of operated road rail vehicles and a fleet of bespoke specialist rail drainage clearing machines. In the financial year ended March 2021 Readypower had turnover of £49 million and EBITDA of £14 million[5]. Angel Trains funded the acquisition from cash reserves and no new associated acquisition debt was raised. The financial projections in this report do not incorporate Readypower's incremental EBITDA (the company financial model is in the process of being updated).

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.

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.

The Scottish government has a net zero carbon emissions target of 2045. In July 2020 Transport Scotland announced a target date of 2035 for a fully decarbonised passenger rail system.

In September 2020 Network Rail published its Traction Decarbonisation Network Strategy (TDNS). The TDNS was produced by Network Rail in response to the Taskforce's recommendation that each key constituent of the industry, including Network Rail, should publish a long-term plan for rail decarbonisation in support of net zero carbon by 2050. Network Rail examined the 15,400 single track kilometre (STK) of unelectrified track in Great Britain and assessed which decarbonised power source—electrification, battery or hydrogen—would be the most efficient replacement for diesel. The TDNS recommended 11,700 STK for electrification (76% of the available track), 900 STK for hydrogen (6%), 400 STK for battery (3%) and 2,300 STK for further analysis (15%). Network Rail proposed various delivery timetable options ranging from 2040 onwards.

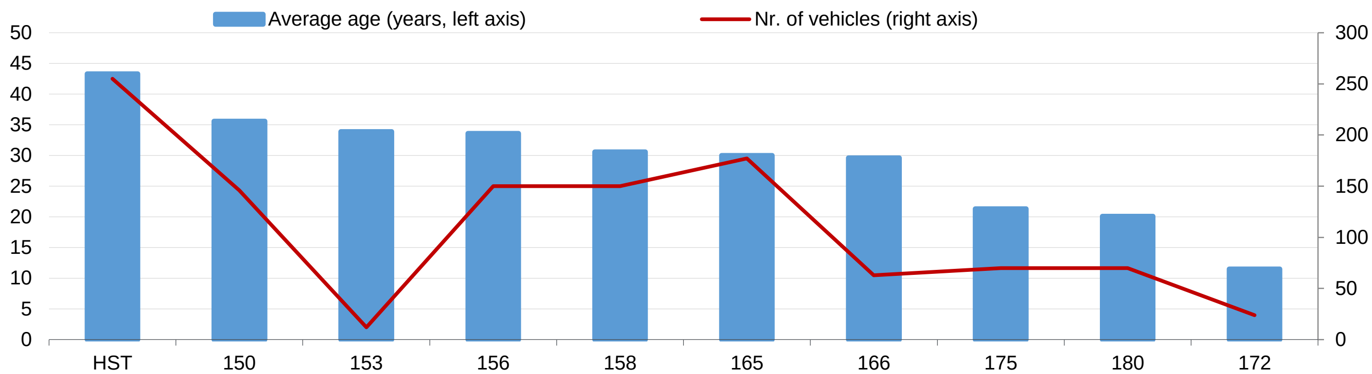
These targets are likely to accelerate demand for new technology (for example hydrogen) self-powered units to operate on non-electrified track, electric/battery bi-mode multiple units and additional electric multiple units.

The chart below shows Angel Trains' diesel fleet by age. 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' diesel fleet by vehicle classification



Source: Angel Trains, Moody's

During the coronavirus pandemic, remote working has become common within certain industries where physical attendance at the workplace is not critical. Remote working is likely to remain to some extent after the health crisis has subsided. 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. In addition, remote working may only become more common on certain days (for example Mondays and Fridays) such that peak rail demand does not reduce significantly. Lastly if fewer vehicles are required in the future, Angel Trains could reduce its fleet to match demand by replacing fewer life-expired vehicles with new vehicles. We expect this would result in lower debt because new vehicles are mostly debt funded.

Liquidity and financing analysis

The company has a £350 million revolving credit facility (RCF) maturing in October 2025 (except for £34 million from one bank which matures in October 2024). As of 31 January 2022 £60 million of the RCF was utilised placing Angel Trains in a strong liquidity position.

In December 2021 Angel Trains raised a new £600 million senior bank debt facility which will amortise over 10 years to 2031. This was used to fully prepay approximately £403 million of bank facilities (comprising £110 million of amortising debt due 2029, a £137.5 million bullet due 2024 and around £155 million of amortising debt due 2027 that was originally in ATRSL). The remaining undrawn debt will be used to fund the remaining manufacturer payments on the Class 720s. Angel Trains' interest cost reduced as a result of the refinancing.

Angel Trains' next significant debt maturity is in 2027, therefore there is limited refinancing risk in the next few years.

Peer comparison

Exhibit 6

UK ROSCO Peer Comparison

Updated as of the date	Eversholt Rail (as of Sep 2021)	Porterbrook (as of Sep 2021)	Angel Trains (as of Jan 2022)
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%)	PSP Investments (74%), Gingko Tree (14%), Amber Infrastructure (12%)
Fleet			
Passenger vehicles	3,362	3,819	3,948
Diesel (% of passenger)	15%	31%	25%
Electric (% of passenger)	77%	69%	72%
Bi-modal (% of passenger)	8%	0%	3%
Weighted average fleet age [2]	19 years	22 years	20.5 years
Leases			
% of rental income from passenger fleets	97%	96%	100%
% of dry / soggy leases	63% / 27%	71% / 29%	70% /30%
Senior Debt			
Weighted average senior debt tenor	10.4 years	6.5 years	6.8
% of amortising style senior debt maturities	77%	51%	83%
Unutilised RCF size as a % of senior debt	30%	30%	16%
Moody's Projected Ratios [1]			
DSCR (whole life forward average)	1.27x	1.62x	1.61x
CFO / Debt (10y forward average)	8%	12%	12%
Net senior debt / EBITDA (maximum)	6.8x (2027)	5.3x (2025)	5.6x (2022)
Net senior debt / EBITDA (20y forward average)	5.3x	3.6x	4.4x
Debt / NPV of Capital Rents (20y forward average)	53%	40%	49%
Interest cover (10 y forward average)	3.0x	3.5x	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
[2] Angel Trains figure includes the remaining Class 720 vehicles due to be delivered in 2022
[3] Angel Trains projections do no incorporate the recent debt refinancing or the acquisition of Readypower. The company's financial model is being updated to reflect these developments. We expect there to be a credit positive impact because of the reduced interest cost and incremental Readypower EBITDA
Source:Moody's, Porterbrook, Eversholt Rail, Angel Trains

Rating methodology and scorecard factors

The principal methodology used in rating the Issuer is Generic Project Finance, published in January 2022.

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	1.61	Baa
	b) Project Cash from Operations / Adjusted Debt	11.5%	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
[2] Angel Trains projections do no incorporate the recent debt refinancing or the acquisition of Readypower. The company's financial model is being updated to reflect these developments. We expect there to be a credit positive impact because of the reduced interest cost and incremental Readypower EBITDA
Source: Moody's

Ratings

Exhibit 8

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 Excluding 100 vehicles marked for disposal

2 Previously called Willow Bidco Limited

3 The Scottish Government will take control of the ScotRail franchise from March 2022. The Welsh Government took control of the Wales and Borders rail service in February 2021.

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

5 Source: Readypower Group Limited accounts

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