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CREDIT OPINION
24 February 2023

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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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Great Rolling Stock Company Plc, The

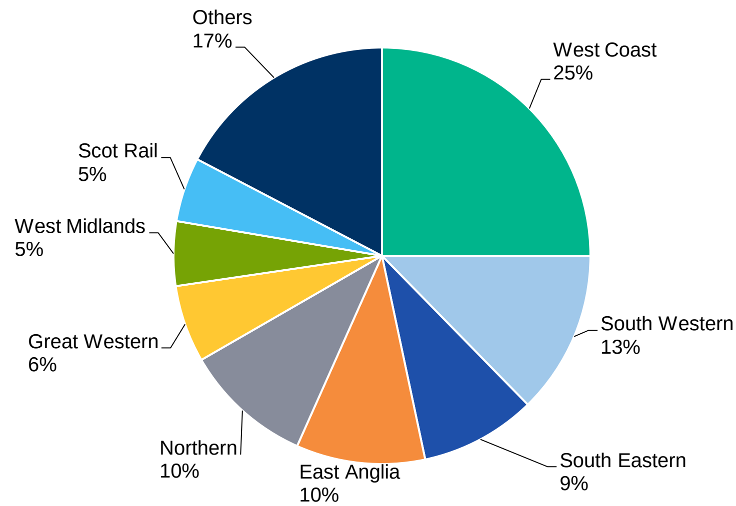
Annual update

Summary

Angel Trains' credit quality (rated Baa2 stable) benefits from (1) the company's size and scale as a leading UK rolling stock lessor across a number of franchises, (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 changes in rail industry regulation or travel habits.

Exhibit 1
Angel Trains 2022 revenue by franchise (capital and non-capital)



Note: 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 implement conservative financial policies. The stable outlook also reflects our expectation of continued stable and supportive regulation in 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 UK 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

Exhibit 2

Senior debt financial ratios

As reported	Lock-up level					
12 months ended		**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22 E**
Turnover (£'m)		528	492	518	592	586
EBITDA (£'m)		420	419	438	513	455
Utilisation of Stock		98.5%	100.0%	100.0%	100.0%	100.0%
Net Debt (£'m)		1,846	1,970	2,118	2,065	2,254
Net Debt/EBITDA	7.50x	4.4x	4.7x	4.8x	4.0x	5.1x
Interest Cover	1.75x	3.1x	3.3x	3.5x	3.8x	3.7x

Note: The 2022 decrease in Non-Capital rentals vs. 2021 is due to deferred income release in that year (mainly due to the South Eeastern re-lease). Readypower reflected in turnover and EBITDA from 2022.
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 totalled 4,202[1] passenger train vehicles at December 2022, with a further 220 vehicles in the process of being manufactured for future delivery.

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

Rail sector is undergoing a substantial review but this is not expected to negatively affect Angel Trains' operations

In May 2021, the Government published the so-called Williams Shapps Plan for Rail (the White Paper) including a number of proposals for the reform and restructuring of the UK rail industry. The key elements of the White Paper 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).
- End of the 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 (see below). 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 rail reform 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 have been nationalised[3] (while continuing to lease vehicles from the private sector ROSCOs) and the rail reform did not introduce changes to the fleet procurement model.

The establishment of GBR will require primary legislation in the UK Parliament. In Moody's view, the current delays and uncertainty around the timing of implementation of changes introduced by the White Paper, coupled with the increasing cost of procuring new trains, support re-leasing of current fleets, and Angel Trains' credit profile.

Rental contracts remained 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 varied significantly, although recent indications suggest a stabilisation at approximately 70%-80% of 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 during the pandemic. 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 improved.

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 were similar to EMAs, except they were 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) have been implemented and will run until around each original franchise expiry date. The NRCs function similar to EMAs and ERMAs, with the TOCs not taking revenue risk.

The existing contracted vehicle lease terms 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, potentially DfT may enter into a new NRC with the incumbent operator if the PSC process has not been adopted at that time. Alternatively, if the process has been developed, TOCs are expected to be subject to competitively awarded PSCs as outlined in the White Paper.

In 2022 Angel Trains successfully started new leases and completed some re-leasing activity…

Over the past few months, Angel Trains managed to successfully commence operations related to some new leases.

- Chiltern Railways: A lease with a duration of 6 years for 89 class 165 vehicles commenced January 2022;
- West Midlands: A lease for 8 Class 172 vehicles commenced January 2022 with an expiry date of September 2026. These vehicles were successfully secured following lease expiry and displacement from Chiltern Railways;
- ScotRail: As part of the New Transport Scotland Rail Contract that commenced in April 2022, a lease for 84 Class 156 was finalised for a duration of 5 years with a possible extension of 9 months;
- East Midlands: A new NRC was concluded involving the lease of 32 Class 158 vehicles until October 2030.

In addition to the above, Angel Trains successfully concluded some re-leasing activity, which is supportive to its credit profile.

- Great Western Railway: The leases for Class 150, Class 16x and High Speed Trains (217 vehicles in total) were extended to dates ranging from June 2025 to June 2028;
- Merseyside: The Class 507/508 lease for 168 vehicles was extended until 2024;

» Transport for Wales: The Class 175 leases were extended until May 2023 (70 vehicles) and the Class 158 leases (48 vehicles) to November 2024.

With regard to the 2022 activity, the realised monthly revenues are broadly in line with expectations. Where monthly rents have decreased compared to initial assumptions, this was generally offset by a re-lease term longer than anticipated.

... but some re-leasing risk is linked to large franchises coming up for renewal in 2024

As common in the UK passenger rolling stock market, lease tenors are currently typically around 5-7 years. Angel Trains has a track record of successfully re-leasing vehicles. However, some of the large franchises currently served by the company are coming up for renewal, with some concentration of maturities in 2024. The key fleets with lease expiries in the next two years are listed below.

» 70 x Wales & Borders Class 175 and 48 x Class 158 expiring in May 2023/October 2024;

» 95 x Transpennine Class 802 expiring in May 2023 (with operator's option to extend by two years);

» 733 x South Western Class 444 and Class 450 expiring in August 2024 (with section 54 undertaking until April 2025);

» 200 x Southeastern Class 465, 150 x Class 707 and 86 x Class 466 in October 2024.

Exhibit 3

Angel Trains' most significant fleets by revenue contribution

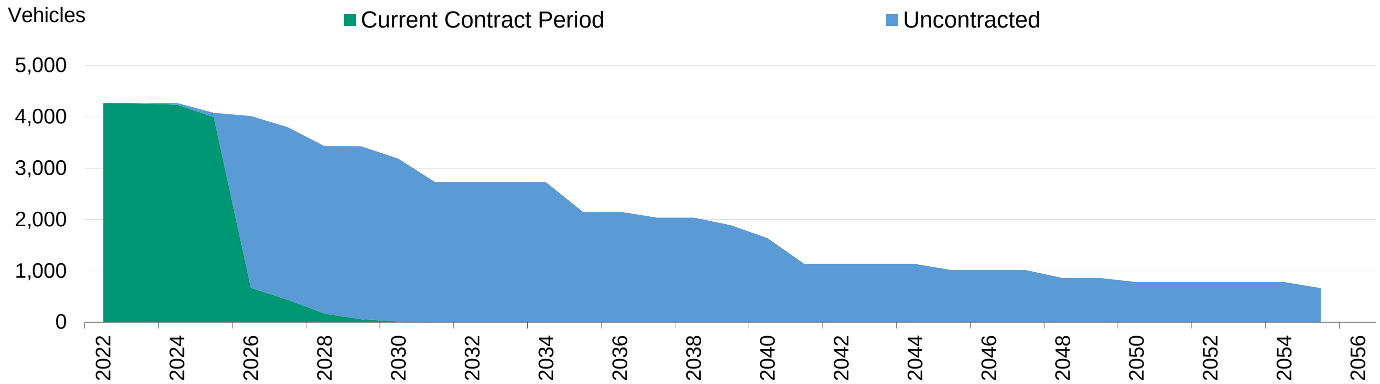
Franchise	Fleet	Number of vehicles	Lease expiry	Average service entry year	Comment
West Coast	Cl 390s	574	March 2026	2003/2012	Potential extension to March 2028
East Anglia	Cl 720s	665	October 2025	2021	New trains. Appox. 460 vehicles delivered to date
South Western	Cl 450s, Cl 444s	508 / 225	August 2024	2004	Section 54 till April 2025 [1]
Transpeninne	Cl 802s	95	May 2023	2019	Potential extension to May 2025
South Eastern	Cl 707s, Cl 465s, Cl 466s	150 / 136 / 70	October 2024	Cl 707 in 2017 Cl 465/466 in 1993	
Great Western	Cl 165s, Cl 166s	88 / 63	June 2028	Cl 165 in 1991 Cl 166 in 1993	
West Midlands	Cl 350s	200	April 2026	2005/2014	
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
Source: Moody's, Angel Trains

Over January 2023 to December 2024, around 38% of vehicles are expected to come off-lease, 28% of which are at the end of their useful economic lives. Therefore, re-leasing risk during this period is limited, 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 but Angel Trains' credit profile remains supported by its strong re-leasing track record.

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



Source:Angel Trains, Moody's

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

In December 2020 Angel Trains transferred an SPV, Angel Trains Rolling Stock Limited (ATRSL), into the senior debt ring-fence. ATRSL 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.

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 credit metrics before December 2020 did not 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 460 vehicles have been delivered (these are all in passenger service now). The current expectation is that all remaining vehicles will be provided by November 2023.

Angel Trains is receiving manufacturing delay liquidated damages. These have been incorporated into the actual results and 2023 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 (fully hedged) of which around £155 million was drawn as of December 2021. The bank debt was prepaid in early 2022 with the proceeds of a new £600 million debt facility. 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 2023, Angel Trains held approximately £100 million of cash.

The remaining purchase price on the Class 720s is approximately £144 million and no additional debt funding is expected to be required, in light of the funding activity concluded in 2022 and the availability of a £350 million revolving credit facility (see liquidity section below).

Readypower Group acquisition now finalised

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 2023, Readypower is expected to generate approximately £75 million revenues and approximately £19 million EBITDA. Angel Trains funded the acquisition from cash reserves and no new associated acquisition debt was raised.

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.

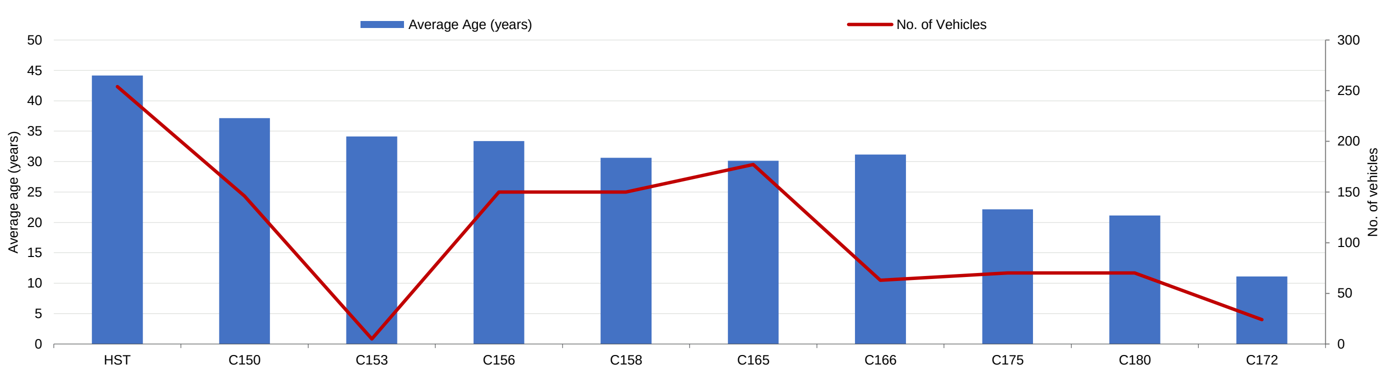
In September 2020 Network Rail published its Traction Decarbonisation Network Strategy (TDNS). The TDNS was produced by Network Rail in response to the Taskforce's recommendation that each key constituent of the industry, including Network Rail, should publish a long-term plan for rail decarbonisation 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

Following the coronavirus pandemic, remote working has become common within certain industries where physical attendance at the workplace is not critical, with the trend becoming more permanent. 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 in the future. However, previous levels of overcrowding on certain services may limit the reduction in vehicles even if passenger demand reduces. In addition, remote working has become more common only 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

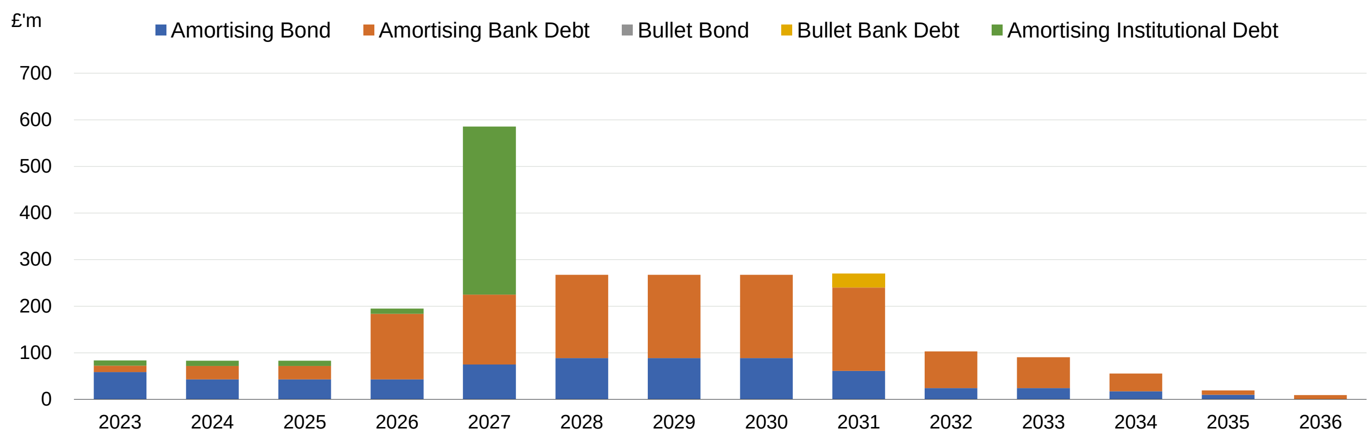
The company has a £350 million revolving credit facility (RCF) maturing in October 2025 (except for £34 million from one bank which matures in October 2024). As of 31 January 2023 the facility was virtually undrawn.

In 2022 Angel Trains completed some significant debt repayments which enabled the group to further extend maturities, reduce refinancing risk and decrease the average cost of debt. In particular, bank facilities with an overall drawn amount of approximately £400 million and maturities ranging from 2024 to 2029 were repaid using new debt facilities raised at the end of 2021. Angel Trains' next significant debt maturity is in 2027, therefore limiting refinancing risk in the next few years.

Exhibit 6

Senior debt maturity profile

As of December 2022



Source: Angel Trains, Moody's

Peer comparison

Exhibit 7
UK ROSCO Peer Comparison

Issuer	Eversholt Rail	Porterbrook	Angel Trains
Date of credit opinion	October 2022	September 2022	February 2023
Shareholders	CK Hutchison Holdings Limited (indirectly 100%)	AIMCo (30%), Allianz Capital Partners (30%), a consortium of Dalmore Capital and Generation Capital (30% in aggregate), EDF Invest (10%)	PSP Investments (74%), Other (14%), Amber Infrastructure (12%)
Fleet			
Passenger vehicles	2,732	3,775	4,024
Diesel (% of passenger)	17%	28%	28%
Electric (% of passenger)	76%	72%	69%
Bi-modal (% of passenger)	7%	0%	3%
Weighted average fleet age	18 years	23 years	20.4 years
Leases			
% of rental income from passenger fleets	97%	96%	100%
% of dry / soggy / wet leases	63% / / 37%	51% / 34%/ 15%	70% / 28% / 2%
Senior Debt			
Weighted average senior debt tenor	9.2 years	5.9 years	6.4 years
% of amortising style senior debt maturities	77%	48%	99%
Untilized RCF size as a % of senior debt	30%	32%	15%
Moody's Projected Ratios [1]			
DSCR (whole life forward average)	1.30x	1.66x	1.60x
CFO / Debt (10 year forward average)	8%	9%	12%
Net senior debt / EBITDA (maximum)	6.0x (2024)	5.36x (2024)	5.48x (2023)
Net senior debt / EBITDA (20 year forward average)	5.0x	3.4x	4.0x
Debt / NPV of Capital Rents (as at)	57% (2022)	47% (2022)	50% (2023)
Interest cover (10 year forward average)	2.8x	3.8x	4.6x
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 ROSCOs finance document definitions in all cases
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.

Exhibit 8

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	1.60x	Baa
	b) Project Cash from Operations / Adjusted Debt	12%	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

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 Excluding 121 vehicles marked for disposal

2 Previously called Willow Bidco Limited

3 The Scottish Government took control of the ScotRail franchise in 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

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