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CREDIT OPINION
20 March 2024

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

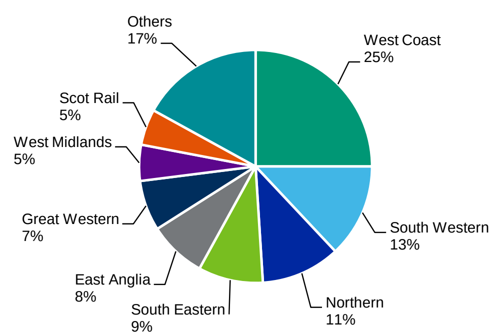
Update following rating affirmation

Summary

Angel Trains' credit quality (rated Baa2 stable) benefits from (1) the group's size and scale as a leading UK rolling stock lessor to train operating companies, (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) cash flows are 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, with some significant leases coming up for renewal over the next two years, (2) some fleet concentration, (3) the exposure to potential adverse rail industry regulatory change or travel habits and (4) high leverage as a result of portfolio investment.

Exhibit 1
Angel Trains 2023 revenue by franchise (capital and non-capital)



Source: Angel Trains, Moody's Ratings

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 re-leasing risk, which could result in lower than forecast fleet utilisation and lease rates or higher than anticipated capex to modify or enhance trains

» Some fleet concentration, with a significant proportion of revenues currently derived from the Class 390s (West Coast franchise) and Class 450s (South Western franchise)

» Potential for adverse changes in rail industry regulation or travel habits

» Relatively high leverage as a result of portfolio investment

Rating outlook

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

Factors that could lead to an upgrade

The ratings could come under positive pressure if conservative financial policies result in a stronger than expected financial performance, with a net debt to EBITDA ratio lower than 4.5x on a sustained basis, considering also the age of the fleet and the tenor and level of future rental revenues.

Factors that could lead to a downgrade

Downward rating pressure would develop as a result of (1) a Moody's expectation, stemming from aggressive financial policies, poor financial performance or weak re-leasing activity, that the net debt to EBITDA ratio will be higher than 6.5x on a sustained basis, (2) a deterioration in the stable and supportive regulation of the passenger rail sector, (3) 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, for example, increased remote working or higher ticket prices due to government policies resulting in reduced subsidies for the rail sector. More generally, given the evolving nature of Angel Trains' fleet age, Moody's cautions that it will reassess the appropriate leverage levels for the rating category from time to time. In addition, as average fleet age increases, Moody's will increasingly focus on assessing the evolution of additional financial metrics, in particular Debt Service Coverage Ratios.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Senior debt financial ratios

As reported	Lock-up level						
12 months ended		**Dec-18**	**Dec-19**	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-23**
Turnover (£'m)		528	492	518	592	578	608
EBITDA (£'m)		420	419	438	513	452	459
Utilisation of Stock		98.5%	100.0%	100.0%	100.0%	100.0%	99.8%
Net Debt (£'m)		1,846	1,970	2,118	2,065	2,254	2,344
Net Debt/EBITDA	**7.50x**	4.4x	4.7x	4.8x	4.0x	5.1x	5.1x
Interest Cover	**1.75x**	3.1x	3.3x	3.5x	3.8x	3.8x	4.2x

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 Ratings

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 4,100[1]passenger train vehicles at December 2023. In addition, in March 2024, Angel Trains announced the acquisition of 50% of SMBC Leasing (UK) Limited's equity interest in a portfolio of companies that own and finance seven new rolling stock fleets in the United Kingdom.

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, which are still being developed, are therefore conceptually similar to the Emergency Recovery Measures Agreements (ERMAs) that TOCs were subject to during the pandemic. National Rail Contracts (NRCs), which typically include a core term of between two and four years at terms negotiated between TOCs and the DfT, are currently being used to transition from ERMAs to PSCs. 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.

» 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 role 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.

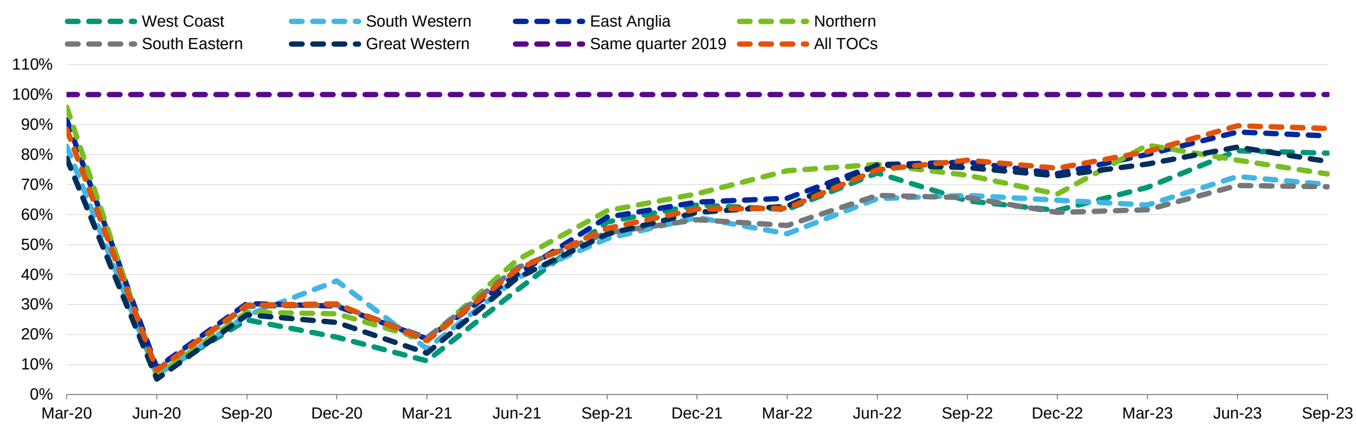
The establishment of GBR will require primary legislation in the UK Parliament. In Moody's view, the current delays and uncertainty around the timing of implementation of changes introduced by the White Paper, coupled with the higher cost of procuring new trains, due to both manufacturing and financing cost increases, support re-leasing of current fleets rather than investments in newly built trains in the shorter term.

Passenger volumes not back to pre-pandemic levels for the main train operating companies served by Angel Trains

Since the lifting of the UK's first set of movement restrictions in June 2020, rail passenger numbers have varied significantly. Some train operating companies, in particular those serving commuter or business routes, continue to experience passenger volumes below pre-pandemic levels. Importantly, whilst Angel Trains' vehicle lease income is not linked to asset usage or passenger levels, sustained peak rail volumes underpin the need for rolling stock.

Exhibit 3

Passenger volumes trail pre-Covid levels across TOCs served by Angel Trains' fleet



[1] Angel Trains' top 6 TOC counterparties by revenue and aggregate for all TOCs served by Angel Trains' fleet
Source: Office of Rail and Road, Moody's Ratings

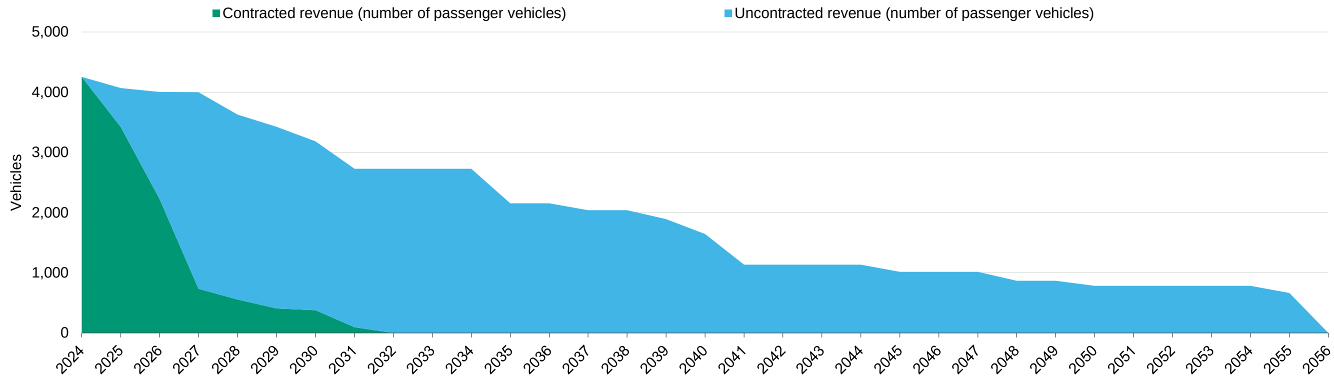
More generally, all rental payments from TOCs have been received regularly. During the pandemic, when passenger volumes were very low, this was possible thanks to strong government support, with the DfT taking all revenue and cost risk while TOCs continued to run services for a pre-determined management fee. Whilst contracted lease revenue is not dependent on passenger numbers or usage of trains, Angel Trains remains in principle exposed to potential changes in subsidies for the rail sector and travel habits over the longer term, which could result in reduced demand of train vehicles from TOCs. However, previous levels of overcrowding on certain services may limit the reduction in vehicles even if passenger demand reduces, while remote working dynamics may only become more permanently common on certain days. In addition, 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 trains, resulting in lower leverage, as new vehicles tend to be mostly debt funded.

Angel Trains exhibits a significant proportion of contracted revenues...

As almost all of Angel Trains' passenger trains are leased under relatively long (typically 7 year) leases, near term revenues are generally highly predictable and stable. More generally, Angel Trains' contracted revenue will stretch to 2031, although approximately 88% of contracted revenue will have rolled off by the end of 2028.

Over January 2024 to December 2025, around 42% of vehicles are expected to come off-lease, however, 14% of these 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
Contracted and uncontracted fleet status



Source: Angel Trains, Moody's Ratings

Estimated group revenue in 2023 was £608 million, compared to £578 million in 2022. EBITDA was £459 million (£452 million in 2022), reflecting the growth of ReadyPower as well as succesful disposal of useful life-expired assets, while cash from operations reached £491 million (£435 million in 2022). Capital expenditure was £269 million, slightly higher compared to the previous year (£234 million) and was mostly related to works on existing fleets (mainly to the class 390 West Coast fleet) as well as stage and delivery payments for the class 720 fleet and to the expansion of ReadyPower's business.

Angel Trains has procured some new rolling stock in recent years, mostly linked to the investment in new trains for the East Anglia franchise (see also below). Leverage level was 5.1x at the end of 2023, but this is expected to increase in the near term as a result of the completion of new fleet procurement and the impact of the recent acquisitions on debt levels.

Exhibit 5
Revenue and cost composition

	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23 E
Capital Revenue	422.8	435.7	447.9	429.6	439.8
Non-Capital Revenue	67.4	82.7	112.6	68.4	69.4
Other Income	15.4	39.1	31.7	80.3	98.7
Total Revenue	505.6	557.5	592.2	578.3	607.9
Staff Costs	19.2	18.1	18.8	21.1	23.3
Maintenance Costs	39.5	50.8	46.9	41.5	36.0

Source: Angel Trains, Moody's Ratings

... with some concentration deriving from the class 390, class 450 and class 720 fleets

About half of the Group's current capital rents derive from the West Coast, South West and Northern franchises, albeit spread over seven separate fleets. The largest fleets, by capital rents, are the class 390 (West Coast franchise), class 450 (South Western franchise) and class 720 (East Anglia).

The 574 class 390s, the 508 class 450s, and the 665 class 720s fleets, cumulatively, account for over 40% of current revenues. This percentage could increase when other life-expired fleets are retired at the end of their current leases. In light of this concentration, Angel Trains' credit quality could be materially impacted by an inability to re-lease the fleets upon expiry of the current leases. However, Moody's notes that the class 390 fleet includes features to accommodate requirements and specifications associated with the West Coast franchise, the class 450 represents a very significant portion of the fleet serving the South Western franchise, making a replacement difficult to implement, while the class 720 is one of the newest and most modern fleets in the UK.

Some small re-leasing activity was completed by Angel Trains in 2023, mostly linked to the Transpennine franchise (extended to 2031). Approximately 80% of 2023 revenue derives from the assets noted in the Exhibit below.

Exhibit 6
Angel Trains' most significant fleets by revenue contribution

Franchise	Fleet	Number of vehicles	Lease expiry	Date entered service	Comment
West Coast	Cl. 390s	574	Mar-26	2003/2012	Potential extension to March 2031
East Anglia	Cl. 720s	665	Oct-25	2021	New trains. Approx 570 vehicles delivered to date
South Western	Cl. 450s Cl. 444s	Cl. 450 - 508 Cl. 444 - 225	Aug-24	2004	Section 54 till April 2025
Transpennine	Cl. 802s	95	May-31	2019	
South Eastern	Cl. 465 Cl. 466s Cl. 707	Cl. 465 - 136 Cl. 466 - 70 Cl. 707 - 150	Oct-24	Cl. 465 in 1993 Cl. 466 in 1993 Cl. 707 in 2017	
Great Western	Cl. 165s Cl 166s	Cl. 165 - 88 Cl. 166 - 63	Jun-28	Cl. 165 in 1991 Cl. 166 in 1993	
West Midlands	Cl. 350s	200	Apr-26	2005/2014	
Northern	Cl. 150s Cl. 156s Cl. 158s Cl. 333s	Cl. 150 - 140 Cl. 156 - 58 Cl. 158 - 70 Cl. 333 - 64	Mar-25	Cl. 150 in 1986 Cl. 156 in 1989 Cl. 158 in 1991 Cl. 333 in 2001	

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

Some re-leasing risk is linked to large contracts with train operating companies coming up for renewal in 2024 and 2025

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 and 2025. 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 March 2024 and April 2025 respectively;

» 733 x South Western Class 444 and Class 450 expiring in May 2025;

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

» 332 x Northern (spread over four fleets) expiring in March 2025.

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.

Full fleet delivery had been expected in 2021. Currently, 19 units (95 vehicles) have yet to be received but no additional debt funding is expected to be required to complete the investment. Angel Trains is receiving manufacturing delay liquidated damages. These have been incorporated into the actual results and 2024 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.

Acquisition of minority stake in a portfolio of c.1,500 vehicles not expected to impact credit profile

In March 2024, Angel Trains announced it had acquired a stake in a vehicle holding participations in seven different UK train fleets for a total of just over 1,500 vehicles. Angel Trains' ultimate shareholdings in the rolling stock assets vary between below 10% and 50%, depending on the fleet. The investment, which is expected to be debt-financed, will not be consolidated in Angel Trains' accounts but we will monitor the performance of the acquired assets in order to capture any potential heightened risks for the group. Notwithstanding the associated increase in leverage levels, the impact on Angel Trains' financial profile is expected to be relatively small, while the stable contractual arrangements associated with the acquired rolling stock portfolio is expected to generate increasing cash flows upstreamed to the Angel Trains group.

This recent transaction follows the announcement, in December 2023, that Angel Trains will invest £50 million in significant upgrades of the Tyseley rail depot. Angel Trains will work with the user of the depot, West Midlands Trains, to ensure that its train fleet, which includes Angel Trains' Class 172, benefit from improved maintenance and services.

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.

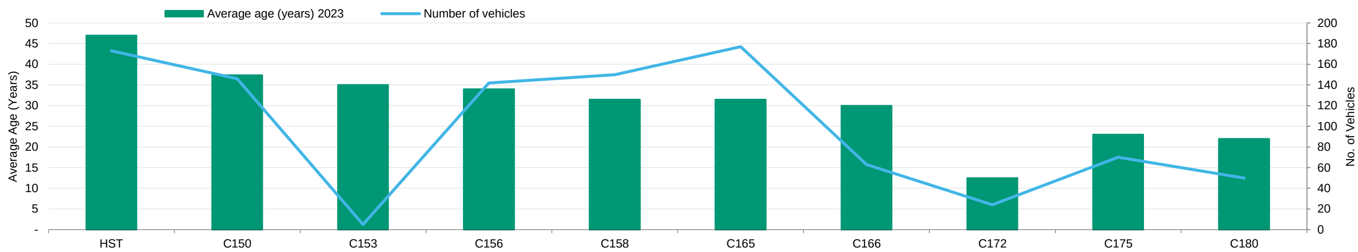
In September 2020 Network Rail published its Traction Decarbonisation Network Strategy (TDNS). The TDNS was produced by Network Rail in response to the Taskforce's recommendation that each key constituent of the industry, including Network Rail, should publish a long-term plan for rail decarbonisation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

The electrification of the rail network is experiencing significant delays, with only 104 kilometers of electrified rail track added since March 2020 in Great Britain according to the Office of Rail and Road (ORR). This delay, alongside long-term emission targets, have shifted industry participants' attention to holding portfolios of trains that are fit for a net zero future as well as capable of accommodating delays in the railway electrification. As a result, there has been spike in demand for new technology, (for example hydrogen) self-powered units to operate on non-electrified track, electric/battery bi-mode multiple units as well as additional electric multiple units.

The chart below shows Angel Trains' diesel-only 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 older than 30 years old.

Angel Trains has procured only 24 DMU vehicles during the last 21 years. Less than 10% of portfolio rents are forecast to be derived from diesel and HST fleets by the end of 2028. The portfolio is largely diesel-free by the end of 2030.

Exhibit 7
Angel Trains' diesel fleet by vehicle classification

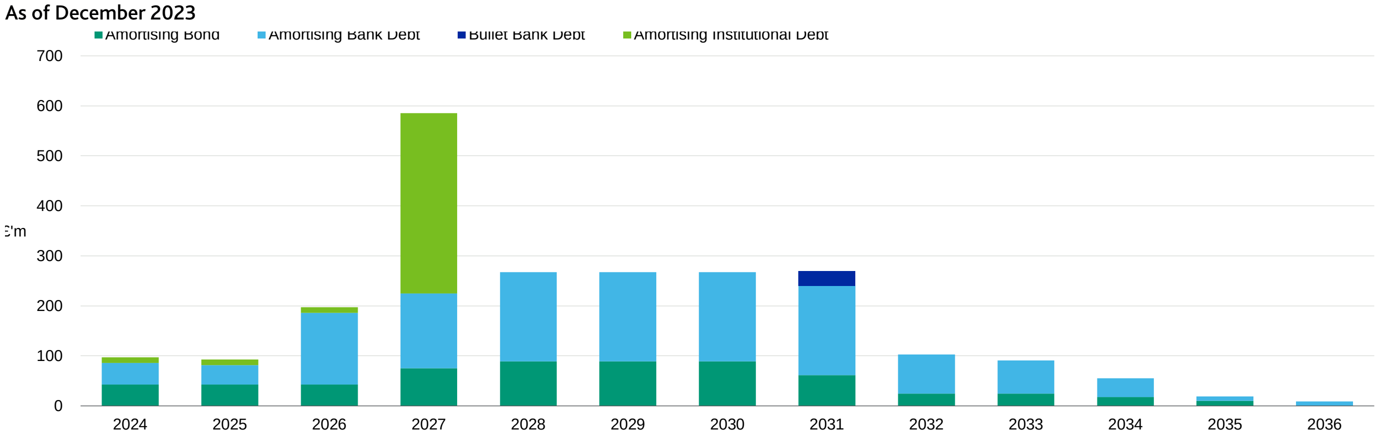


Source: Angel Trains, Moody's Ratings

Liquidity and financing analysis

Angel Trains has a £500 million RCF (undrawn) maturing in August 2028 (with two additional one-year extension options). The size of the RCF was increased from the previous £350 million, thus bringing the size of Angel Trains' liquidity more in line with other ROSCOs. The RCF provides a significant source of additional liquidity, which is however not expected to be used to finance large capital expenditure project. Angel Trains' maturity profile is reasonably spread, although with a relatively significant maturity in 2027.

Exhibit 8
Senior debt maturity profile
As of December 2023



Source: Angel Trains, Moody's Ratings

Peer comparison

Exhibit 9
UK ROSCO Peer Comparison

Issuer	Eversholt Rail	Porterbrook	Angel Trains
Date of credit opinion	November 2023	October 2023	March 2024
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 (64%), Amber Infrastructure (12%), Arjun Infrastructure (10%), Others (14%)
Fleet			
Passenger vehicles	2,627	3,441	4,006
Diesel (% of passenger)	14%	31%	24%
Electric (% of passenger)	72%	69%	73%
Bi-modal (% of passenger)	14%	0%	3%
Weighted average fleet age	19 years	21.5 years	20.7 years
Leases			
% of rental income from passenger fleets	97%	94%	100%
% of dry / soggy leases	68% / 32%	63% / 37%	74% / 26%
Senior Debt			
Weighted average senior debt tenor	8.50 years	4.85 years	6.5 years
% of amortising style senior debt maturities	76%	41%	99%
Untilized RCF size as a % of senior debt	23%	36%	21%
Moody's Projected Ratios [1]			
DSCR (whole life forward average)	1.36x	1.65x	1.51x
CFO / Debt (10 year forward average)	8%	9%	12%
Net senior debt / EBITDA (maximum)	6.04x (2025)	5.07x (2024)	5.66x (2025)
Net senior debt / EBITDA (20 year forward average)	4.3x	3.3x	4.5x
Debt / NPV of Capital Rents (as at)	52% (2023)	45% (2023)	55% (2023)
Interest cover (10 year forward average)	2.7x	4.0x	4.2x
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: Porterbrook, Eversholt Rail, Angel Trains, Moody's Ratings

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	1.51x	Baa
	b) Project Cash from Operations / Adjusted Debt	11.8%	Baa
Preliminary Scorecard Indicated Outcome before Notching:			**Baa2**
Notching Considerations			**Notch**
	1 - Liquidity		0.5
	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 Outcome [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

Ratings

Exhibit 11

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

Source: Moody's Ratings

Endnotes

1 Including 95 vehicles on order

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.

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