

CREDIT OPINION

20 December 2018

Update

✓ Rate this Research

RATINGS

ENA Norte Trust

Domicile	Panama
Long Term Rating	Baa3
Type	Senior Unsecured - Fgn 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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ENA Norte Trust (Panama)

Update to credit analysis

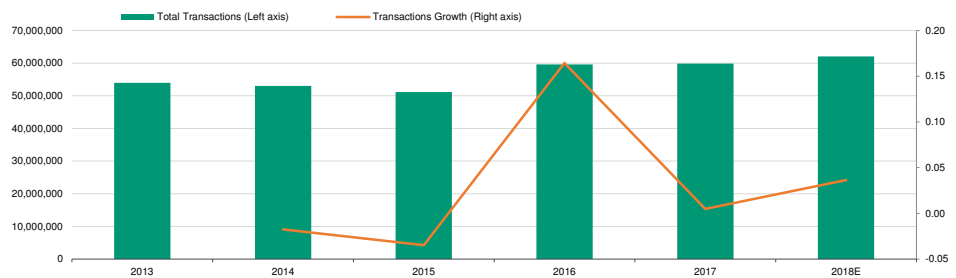
Summary

The credit profile of [ENA Norte Trust's](#) issuance (Baa3 stable) benefits from Ena Norte's strong fundamentals, including its position as a key transport asset in a strong service area in Panama and its linkages with the [Government of Panama](#) (Baa2 positive). Its credit quality also considers the limited liquidity of the structure, the volatile traffic trends and the lack of tariff increases. The outlook on the rating is stable, balancing the expected positive traffic performance with the lack of tariff increases.

ENA Norte's transactions has recovered since 2016 following two years of decline. As of September 2018, transactions increased by 3.6% with respect to the same period in 2017 after an annual increase of 0.5% and 16.4% in 2017 and 2016, respectively. Overall, traffic has been volatile, reflecting the evolving dynamics of the city including construction works in alternative routes and the opening of complementary roads. Moody's anticipates that traffic will continue on a positive path but will continue to exhibit some volatility.

Cash flow generation has been limited by the lack of tariff increases. However, considering the increase in traffic of 2016 and 2017, Cash Flow Available for Debt Service (CFADS) increased 17.2% and 3.7% respectively. Absent tariff increases, cash flow generation will ultimately continue to rely solely on traffic growth.

Exhibit 1
ENA Norte Trust's Transactions



Source: ENA Norte; Transactions for 2018 are Moody's estimates according to transaction growth as of September

Credit strengths

- » Strong fundamental market position as a key thoroughfare in Panama City
- » Recent history of strong, albeit volatile, traffic growth
- » Government ownership that provides rating uplift
- » No ability to increase leverage

Credit challenges

- » Lack of tariff increases
- » Limited liquidity available to bondholders

Rating outlook

The outlook on the rating is stable, balancing the expected positive traffic performance with the lack of tariff increases.

Factors that could lead to an upgrade

- » Growth in cash flow available for debt service due to stronger traffic growth, tariff increases or cost control, and further clarity in the amount and funding sources for capital improvements could place positive pressure on the rating.

Factors that could lead to a downgrade

- » Downward pressure could generate from a change in the economic prospects for the Republic of Panama, or any other event that causes transaction volumes to stagnate or decline. A reduction in cash flows that results in debt service coverage ratios below 1.5 times would also exert downward pressure on the rating.

Key indicators

Exhibit 2

ENA Norte Trust

	2013	2014	2015	2016	2017	2018E
Debt Service Coverage Ratio	2.0x	2.0x	2.0x	2.4x	2.7x	2.9x
Debt to Operating Revenue	7.9x	7.8x	7.6x	6.3x	5.4x	4.8x
Annual Transactions	53,963,011	53,017,602	51,174,860	59,588,652	59,873,010	62,050,594
Transactions Growth		-1.8%	-3.5%	16.4%	0.5%	3.6%

Source: Moody's Investors Service and ENA Norte; Key indicators for 2018 are Moody's estimates

Profile

Corredor Norte is a highway system in Panama City, the capital of the Republic of Panama. It spans the northern part of the city complementing the Corredor Sur highway that runs along the shore in the south. Corredor Norte currently consists of three 2-lane segments totaling 33 kilometers, and one additional segment (Phase IIB) that is currently in operation but is not a part of this transaction.

The road system is owned by the Republic of Panama but in 1994, the Republic granted PYCSA Panama S.A. (PYCSA) a 30 year concession to study, design, construct, maintain, administer, exploit and finance Corredor Norte. Subsequently, PYCSA transferred the rights under its original concession to the Autopista Colon segment (Madden - Colon portion, while keeping the Panama - Madden portion) to Constructora Norberto Odebrecht S.A. and the rights to a segment stretching between Brisas del Golf and Tocumen to

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Maxipista de Panama, S.A. Maxipista then subsequently transferred its rights to ENA. Both of these segments are not a part of this transaction.

ENA is a Panamanian corporation wholly owned by the Republic of Panama. It was formed mainly to acquire and manage companies that have concessions from the Republic of Panama for the construction, conservation, maintenance, administration, financing and exploitation of toll roads and highways. ENA acquired ICA Panama, S.A.; renamed it ENA Sur, S.A., the concessionaire of Corredor Sur, another highway system in Panama City that runs south of Corredor Norte in August of 2011, and acquired Corredor Norte system through its wholly owned subsidiary ENA Norte in October of 2012.

For the purpose of this transaction, ENA Norte Trust, a special purpose financing vehicle, was created. ENA Norte shares were transferred into the Trust along with the Assigned Rights and pledges of various accounts. The Trust served as the issuer of debt to finance a portion of the acquisition price of the concession from PYCSA.

Detailed Credit Considerations

Strong fundamental market position as a key thoroughfare in Panama City

Corredor Norte is a mature 33.4 km toll road network that spans the northern part of Panama City, complementing the Corredor Sur highway that runs along the shore in the south. The toll road consists of three segments: a 13.2 km dual two-lane highway that runs from southwest to northeast from Albrook to Transismica interchange, the 14 km dual two-lane highway Madden segment, and a 6.2 km dual two-lane segment that extends from Transismica interchange to Brisas del Golf. The segments have been tolled since 1998, 1999, and 2009, respectively.

The toll road experiences some competition from the Panama Metro system, the metro bus system, and non-tolled alternative routes. Line 1, the first subway line, started service in 2014. Line 2 is expected to be completed in 2019 and, together, the first two subway lines will somewhat mirror the toll road possibly diverting travelers whose origin and destination are near the planned subway stations. The entire rail network is being implemented in phases and is expected to be completed around 2035.

The brand new subway line, the updated metro bus system, and several non-tolled alternative routes have increased traffic volatility for the toll road. However, the rapidly expanding Panamanian economy is encouraging vehicle ownership in the city and, consequently, also traffic congestion. As a result, we expect toll roads to become more and more essential to the regional economic expansion and for the toll road to maintain adequate traffic volumes for its current rating level.

The viability of the road depends to a great extent on its service area. Corredor Norte is one of the two growing highway systems in the city of Panama, the nation's capital. Panama City is the economic and financial center of the country with prominent banking, insurance, container port services, commerce, and tourism sectors. The major project driving the country's and the city's economy for the past few years was the Panama Canal expansion, which is expected to continue driving growth ([Panama Canal Authority, A2 stable](#)). The population of the country is around 4 million with more than one third of the people living in the Panama City metro area.

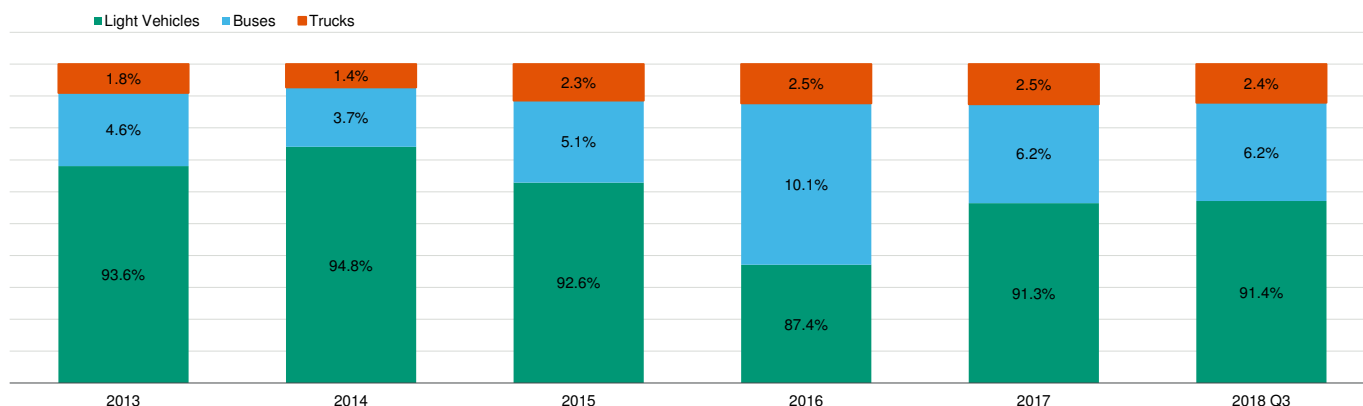
Recent history of adequate, albeit volatile, traffic growth with lack of tariff increases

The toll road has experienced adequate but volatile traffic volumes over the years. The 5-year compound annual growth rate (CAGR) from 2013 to 2017 was 2.6%. Despite the toll road's track record of robust growth, traffic volumes declined in 2015 by 3.5%, but increased by 16.4% in 2016 and 0.5% in 2017. As of September 2018, traffic growth was 3.6% in compared with the same period of 2017 and we expect it will record above 60 million per year at the end of 2018, consistent with the rating assigned.

The toll road's traffic profile has remained steady despite the ups and downs in volume. Around 90% of the transactions correspond to cars and motorcycles since it is a principal route for commuters in the Panama City metro area. Moody's views this traffic composition as a credit positive since commuter traffic is a more reliable source of toll revenue than commercial traffic, which is more susceptible to changes in economic conditions.

Exhibit 3

Transaction composition



Source: ENA Norte

The toll road completed its Panapass RFID-based toll collection system transition in 2015. The electronic toll collection (ETC) system was introduced as part of the strategy following the transfer in 2012. ETC on the toll road has essentially reached full penetration and is expected to reduce time and further improve traffic. The cost of travel along the full length of the current system is \$3.65 which translates into \$0.19 per kilometer, a fairly low level among toll roads in Latin America. Revenue growth is not expected to depend on toll increases, which are projected to remain constant through the life of the concession, but from traffic fueled by economic growth, higher car ownership rates, population growth and increased ridership.

The lack of tariff increases has limited cash flow growth, however increase in traffic resulted in cash flow available for debt service (CFADS) growth of 3.7% and 17.2% in 2017 and 2016, respectively. As of September 2018, CFADS grew by 3.2% compared with the same period in 2017. Absent tariff increases, cash flow generation will ultimately continue to rely solely on traffic growth.

Government ownership that provides rating uplift

As a part of this transaction, the concession to operate currently opened segments of Corredor Norte was transferred from PYCSA to ENA Norte, an entity wholly owned by the Panamanian government. A sister company ENA Sur already operates Corredor Sur under similar arrangements. The original 30 year concession was granted in December 1994. The government acquisition of this concession was in part motivated by political pressures to maintain stable and low toll rates. Under the terms of the concession agreement, should the company file for bankruptcy protection or should an event of default occur, all debt becomes immediately due and payable and bondholders have a right to step in and take over the operation of the road. The agreement prohibits a decrease in toll rates unless interest only debt service coverage for most recent four quarters is at least 1.75 times, is projected to reach at least 1.50 times in any future quarter and the notes can still be paid in full one year prior to legal maturity.

The concession agreement also incorporates a concept of contractual equilibrium, where the concessionaire will be compensated for losses arising from extraordinary or unforeseen circumstances, such as force majeure.

No ability to increase leverage

As provided by the indenture, there is no ability to increase leverage of this portion of the road system and there is no ability to pursue significant sources of revenue outside of this concession. Those terms safeguard the enterprise from any opportunistic corporate activity that may subject the bondholders to higher risk.

Government Related Issuer analysis

This rating included analysis of the issuer as a government related issuer (GRI) given ENA's status as a wholly-owned entity of the Republic of Panama. The GRI analysis begins with a baseline credit assessment (BCA) which is then adjusted for the expected levels of dependence on and support expected from the federal government. The BCA for this entity was determined to be ba1. The level of dependence was designated as Very High due to the strong correlation between the financial and operational ties between the road and the government of the Republic of Panama. The two are closely linked and revenues for both are derived from the same population base and face very similar credit risks. The level of expected support was designated as Moderate due to the close linkages between

the government and ENA Norte, the importance of the road to the national transport system, and the implicit governmental support demonstrated for the road through this transaction.

As a result of this GRI analysis the BCA received a one rating notch uplift to produce a final rating outcome of Baa3.

Liquidity analysis

ENA Norte maintains 6 months of interest payments in its debt service reserve funds per transaction covenants. This is viewed by Moody's as relatively weak for these types of structures. Its major maintenance reserve fund and a capital expenses reserve fund, respectively funded at \$1.25 mm and \$1.5 mm, offer bondholders an additional liquidity cushion, but remain below average. The agreement prohibits a decrease in toll rates unless interest only debt service coverage for most recent four quarters is at least 1.75 times, is projected at least 1.50 times in any future quarter and the notes can still be paid in full one year prior to legal maturity.

Methodology and scorecard

The principal methodologies used in this rating were the [Government Owned Toll Roads](#) published on November 10, 2016 and [Government-Related Issuers](#) published on June 6, 2018. The grid is a reference tool that can be used to approximate credit profiles. However, the grid is a summary that does not include every rating consideration. The two-notch difference between the scorecard indicated rating and the assigned BCA reflects the volatility of traffic and the absence of tariff increases.

Exhibit 4

Rating factors - Government Owned Toll Roads Methodology ENA Norte Trust

Factor	Subfactor	Score	Metric FY 12/31/2017
1. Market Position	a) Asset Type	A	
	b) Operating History	Baa	
	c) Competition	A	
	d) Service Area Characteristics	Aa	
2. Performance Trends	a) Annual Traffic Transactions	A	59.9 million
	b) Traffic Profile	Aaa	
	c) Five Year Traffic CAGR	A	2.6%
	d) Ability and Willingness to Increase Toll Rates	B	
3. Financial Metrics	a) Debt Service Coverage Ratio	Aa	2.74x
	b) Debt to Operating Revenue	A	5.42x
4. Capacity, Capital Plan and Leverage	a) Asset Condition/Capital Needs	Baa	
	b) Limitations to Growth/Operational Restrictions	Baa	
Notching Considerations		Notch	
	1 - Debt Service Reserve Fund level	-0.5	
	2 - Open/Closed Flow of Funds	0	
	3 - Days Cash on Hand	-1.0	
	4 - Other Financial, Operating and Debt Factors	-0.5	
Scorecard Indicated Rating:		Baa2	

Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
ENA NORTE TRUST	
Outlook	Stable
Senior Unsecured	Baa3

Source: Moody's Investors Service

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