ENA Master Trust's $400 Million Senior Secured Bonds Rated 'BBB+', Outlook Negative

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Rating Action Overview

- Panama-based toll road, ENA Master Trust (ENA or the project) intends to issue $400 million in senior secured bonds due 2048.
- The project will use around 80% of the proceeds to refinance the outstanding notes issued by ENA Sur Trust and ENA Este Trust, which in turn are the owners of the concessions, Corredor Sur (ENA Sur) and Corredor Este (ENA Este). The remaining 20% will be used for other general purposes.
- On Nov. 17, 2020, S&P Global Ratings assigned its 'BBB+' rating to the proposed senior secured bonds following the receipt and satisfactory review of all transaction documents, that remained in line with our expectations.
- The negative outlook reflects our view that we could lower the rating on the project in the next 12 to 18 months if we were to downgrade Panama to 'BBB'. This could occur if the pace of economic recovery after the downturn in 2020 is slower than expected. We could also lower the rating on ENA if the impact of the current economic downturn--and the government's policy response to it--lead to wide and prolonged fiscal deficits that weaken public finances, raising net debt burden and the government's interest payments as a share of fiscal revenues.

Project Description And Key Credit Factors

ENA, the newly created limited purpose entity, own ENA Sur and ENA Este. ENA Sur operates a 19.8-kilometer (km) urban toll road located in southern Panama City that connects the downtown area with the Tocumen International Airport. The construction of this asset began in May 1997, was partly opened in June 1999, and was completed in February 2000. The concession was originally expiring on June 2029 but was recently extended until June 2048, one month after the new debt will mature. ENA Este operates a 10.2 km toll road located in the northern area of Panama City (formally known as Corredor Norte fase IIB). This toll road is fully operational since 2015 and was designed as an extension of ENA Norte Trust (BB+/Negative) to connect the northern corridor to the southern one. ENA Este's concession ends in 2045.

ENA is a subsidiary of Empresa Nacional de Autopistas S.A.. The latter is a company created and owned by the Republic of Panama (BBB+/Negative/--) to build and operate toll roads in the country.

The operator of both corridors is Maxipista de Panama, S.A. (Maxipista; not rated) and we expect will continue to be so given the existence of an “Administration Contract”, which expires when each concession ends.

Strengths

- **Solid coverage metrics:** We believe ENA will post strong financial metrics during the bonds' term, as seen in the robust debt service coverage ratio that we estimate will remain above 2.3x.
- **Strategic location:** The roads service the country’s most densely populated areas, and key commercial and residential areas of Panama City. This enhances ENA's competitive position as seen in a historical compound average traffic growth rate until 2019 of 7.5%, slightly above the country's average annual GDP growth pace.
- **Traffic mix:** More than 95% of the users are commuters with a defined origin-destination route, which is also reflected in ENA's satisfactory competitive position. We believe that light-vehicle traffic tends to be more resilient during the economic downturn than heavy traffic. Therefore, we consider this as a credit strength.
- **Sound liquidity reserves:** The project will benefit from a 12- month debt service reserve account (DSRA) that would allow ENA to comfortably withstand a downside scenario--including operating stresses and higher costs--for more than five years. Moreover, the project will maintain a reserve account to cover at least 12 months of major maintenance costs and 1 month of operations and maintenance {O&M]), which we believe will mitigate the absence of a cash lock-up mechanism that ensures a minimum cash before being out of the structure.

Risks

- **Volume risk:** Like the majority of the toll roads we rate, ENA is exposed to traffic risk. Any economic downturn or restrictions on movement stemming from the pandemic could dent traffic levels and reduce the project's cash flows. In addition, both assets face competition from alternative free roads such as Domingo Diaz Avenue that runs parallel to the corridors. This increases traffic volatility, and therefore the fluctuation in future cash flows.

- **Sovereign's creditworthiness:** The rating on ENA is currently limited by the rating on Panama, given that we don’t believe the project could withstand a sovereign default. This is because ENA is exposed to the regulator (Ministry of Public Works) decisions, which could impact ENA´s financial performance.

Rating Action Rationale

On Nov. 17, 2020, S&P Global Ratings assigned its 'BBB+' issue-level rating to ENA's dollar-denominated senior secured bonds due May 2048. The outlook is negative.

The rating of 'BBB+' mainly reflect the moderate complexity of the road, which includes large bridges that require a periodic maintenance, reflected in an asset class stability score of '3' (on a scale of '1' to '10', with '1' as the strongest). Moreover, we believe the project is exposed to a low market risk because we expect cash flows to vary 15%-30% during the debt's term, which we attribute to the inherent traffic volatility on these roads mainly due to the competition from alternative free roads. For instance, we've seen in 2020 that because of the traffic restrictions imposed by the government, congestion levels at Domingo Diaz Avenue (ENA's main competitor) has significantly decreased. As a result, many vehicles used this alternative road instead of ENA's toll roads. Therefore, as of October 2020, traffic on these toll roads plummeted about 50%, while that among most of the peers that we rate in Latin America decreased in the 15%-30% range.

In addition, the toll roads have a competitive position that we view as satisfactory, given their strategic location because they connect Tocumen International Airport with the southern part of Panama City. As a result, ENA's traffic represents a significant proportion of the end-to-end average journey. In addition, the project heavily relies on commuters, who tend to be more resilient during the economic downturn.

We expect the project to be highly resilient even under a stress scenario, in which we assume operating costs about 10% higher than in our base-case scenario, two five-year down cycle scenario with traffic reduction of 3%-6% from the base-case growth rate, and an increase in the inflation rate of 100 basis points (bps). This is because we expect the project to post sound financial metrics, including debt service coverage ratios (DSCRs) of above 1.2x in the downside scenario, which provides a one-notch positive adjustment over the preliminary stand-alone credit profile (SACP).

Finally, we believe the project will maintain an adequate liquidity position, with a 12-month DSRA, one-month O&M and 12-month major maintenance reserve account. The latter could eventually cover additional O&M costs if necessary, reaching to an O&M reserve account of up to 12 months. We believe that the possibility to retain cash in a reserve account of at least 12 months of operations mitigates the absence of a forward-looking cash lock-up mechanism that ensures a minimum cash before being out of the structure.

Although the SACP is above the 'BBB+' rating on the sovereign, we're capping the rating on ENA at the level of the sovereign, given that we believe the project couldn't withstand a hypothetical sovereign default. We believe ENA is exposed to the regulator, which approves tariffs, capex, and new debt. Therefore, we believe its decisions could affect the project's cash flows, particularly under a sovereign stress event.

Outlook

The negative outlook on ENA reflects our view that we could lower the rating on the project in the next 12-18 months if we were to downgrade Panama to 'BBB'. This could occur if the pace of economic recovery after the downturn in 2020 is slower than expected. We could also lower the rating on ENA if the impact of the current economic downturn and the government's policy response to it lead to wide and prolonged fiscal deficits that weaken public finances, raising net debt burden and the government's interest payments as a share of fiscal revenues.

Downside scenario

We could also downgrade ENA if we were to lower the rating on Banistmo S.A., the bank account provider, to 'BB' or below. Finally, we could downgrade ENA if minimum DSCR falls below 1.20x, which we don't expect at this stage. This could occur if we envision a slower traffic recovery, 10% below our current scenario that already captures a decrease due to the pandemic.

Upside scenario

We could revise the outlook to stable if we were to revise that on the sovereign. Moreover, given that our rating on ENA is capped at the sovereign rating, we could upgrade the project if we were to do the same on the sovereign.

Base Case

Assumptions

- In line with our expectations stated in our latest credit conditions article “Latin American Economies Are Last In And Last Out Of The Pandemic”, published on June 30, 2020, we expect Panama's real GDP (the main driver of the toll road's traffic growth) to contract 10% in 2020, and expand 7.0% in 2021, 5.5% in 2022, and 4.0% afterwards. Moreover, costs are adjusted to Panama's inflation rate, which we expect to be -1% in 2020, 2.3% in 2021, and 2.0% in 2022 and afterwards.

Revenues

- Traffic decrease of about 45% for 2020, and growth of about 65% in 2021 (representing 90% of the 2019 level), and 7% in 2022 (representing approximately 95%). Moreover, we project a full recovery of traffic by the end of 2023 and a long-term traffic growth of 1%-3%, which would be 0.5x Panama's GDP growth.
- No tariff increases given the discretionary rate adjustment mechanism.

Costs

- Annual O&M, minor maintenance costs, and other costs of approximately $12 million in the next three years and about $15 million starting in 2024.
- Major maintenance costs of $6 million in 2020, $12 million in 2021, $7 million in 2022, and $12 million on average starting in 2023.

Key metrics

- A minimum DSCR of approximately 2.31x in May 2048; and
- An average DSCR of about 3.30x.

Downside Case

Assumptions

- We modeled a downside scenario, assuming a five-year down cycle scenario with a traffic 6% lower than the base-case growth rate for two consecutive years starting in 2021, followed by a 3% drop between 2023 and 2025. Moreover, and because of the length of the project, we assume a second five-year down cycle scenario from 2041 to 2045.

- We also modeled the O&M and capex costs 10% higher than those in our base-case projections.
- An increase in inflation of 100 bps, which also affects O&M costs.

Key metrics

- A minimum DSCR of approximately 1.23x in May 2048; and
- An average DSCR of about 2.34x.

Ratings Score Snapshot

Operations phase SACP (senior debt)

- Operations phase business assessment: 8 (1=best to 12=worst)
- Preliminary SACP: bbb+
- Downside impact on preliminary SACP: a (+ 1 notch)
- Liquidity: Adequate (no impact)
- Comparative analysis assessment: Neutral (no impact)
- Adjusted preliminary operations phase SACP: a-
- Operations counterparty ratings adjustment: Neutral
- Financial counterparty ratings adjustment: Neutral (no impact)
- Operations phase SACP: a-

Modifiers (senior debt)

- Parent linkage: de-linked
- Structural protection: Neutral
- Extraordinary government: None
- Sovereign rating limits: BBB+
- Full credit guarantees: None
- Senior debt issue rating: BBB+

Construction phase SACP

Given that the construction of assets is completed and that the new expansionary capex that the project might finance with the proceeds from the new issuance are not yet determined, we're not applying a construction phase SACP.

Operations phase SACP

The operations phase SACP is mainly driven by the following assessments:

- The assets' class stability--the risk that a project's cash flow will differ from expectations due to operational issues--that we assess at '3'. The score mainly reflects the risk to operate toll roads, particularly those that include large bridges that require a periodic maintenance.
- A satisfactory competitive position, mostly thanks to the strategic location of the assets, which serve key commercial and residential areas of Panama City, and the bulk of traffic as light vehicles.
- Low market risk because of the inherent traffic volatility, also given that the toll roads face competition from alternative free roads such as Domingo Diaz Avenue. We believe that if traffic decreases 1.5% on average from our base-case expectations during the bonds' term, the cash flow available for debt service could decrease about 25% from our base-case scenario.

Our base-case scenario assumes a minimum and average annual DSCR of about 2.3x and close to 3.3x, respectively, during the bonds' term, which combined with our view of the operational risk of the project, results in a preliminary SACP of 'bbb+'. Moreover, we believe the project will maintain sound financial metrics even under a stress scenario in which we assume two five-year down cycle scenario with traffic 3%-6% lower than the base-case growth rate, 10% higher operating costs and a 100 bps higher inflation. As a result, we adjust the preliminary SACP by one notch to 'a-'.

Operations counterparties

The project has no counterparties that pose a rating constraint. ENA is--and will continue to be--exposed to market risk. However, the diverse base of users (which are the ones that pay the rate) mitigates, in our view, the concentration of one single or a few counterparties.

In terms of operations, we expect the current operator could be substituted by other operators in a short period of time and without cost overruns. This is because the contract price is in line with market trends, and there are several other operators in the country and region that could provide the same service. Additionally, the project will have one month of credit enhancement (through a fully funded O&M reserve account) to continue operating the asset if the operator's replacement is necessary.

Financial counterparties

ENA will have two bank account providers. In its account at Banistmo S.A.(BB+/Stable/--), the project will maintain the temporary concentration of funds and local payments, while at Bank of New York Mellon (A/Stable/--), the offshore account, it will hold all the other accounts (including reserves accounts). We believe that none of the financial counterparties will pose a rating constraint, given that other banks could replace the current ones.

Liquidity

We consider the project's liquidity to be neutral. A DSRA will cover at least 12 months of senior debt payments. Moreover, we expect that as of the closing date of the transaction, the project will fund a reserve account that will cover one month of O&M costs and 12-month major maintenance reserve account. The latter could eventually cover additional O&M costs if necessary, reaching to an O&M reserve account of up to 12 months.
We believe that the possibility to retain cash in a reserve account of at least 12 months of operations mitigates the absence of a forward-looking cash lock-up mechanism that ensures a minimum cash before being out of the structure.

Ratings above the sovereign

Although the indicative operations phase SACP is above the 'BBB+' rating on the sovereign, we cap the rating on ENA at the level of the sovereign, given that we believe the latter couldn't withstand a hypothetical sovereign default. We believe ENA has a high exposure to the regulator, which approves tariffs, capex, and new debt. Therefore, we believe the government´s decisions could affect the project's cash flows, particularly under a sovereign stress event.