

CREDIT OPINION

28 October 2022

Update

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RATINGS

ENA Norte Trust

Domicile	Panama
Long Term Rating	Baa3
Type	Senior Secured - Fgn Curr
Outlook	Negative

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

Update following outlook change to negative

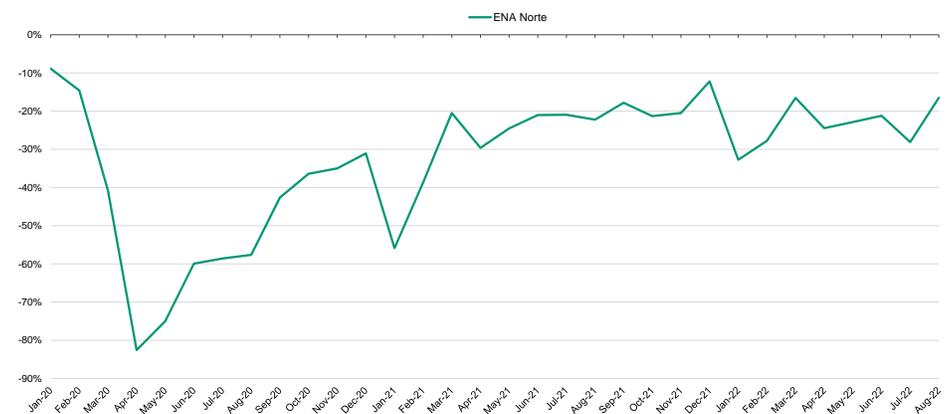
Summary

ENA Norte Trust's (ENA Norte, Baa3 negative) credit profile benefits from its strong fundamentals, its position as a key transport asset in a strong service area in Panama City and links with the [Government of Panama](#) (Baa2 negative), the support provider under our analytical framework for Government-Related Issuers (GRIs).

The credit profile also takes into account our expectation that traffic will continue to recover, reverting the deterioration in liquidity and leverage metrics during 2022 and 2023. As such, the Debt Service Coverage Ratio (DSCR) will likely recovery to above 1.0x in 2022, compared to 0.9x in 2021, and the Debt to Operating Revenue ratio will decrease to 3.5x in 2022 from 4.7x in 2021.

Year-to-date, ENA Norte has experienced an increase of 7.7% in traffic compared to the same period in 2021, but remains 23.8% below 2019 levels (please refer to Exhibit 1). However, we expect pre-pandemic levels of traffic and revenue to return by 2025.

Exhibit 1
Traffic will remain below 2019 levels until 2025



Sources: ENA Norte and Moody's Investors Service projections

Credit strengths

- » Exceptional market position as a key thoroughfare in Panama City
- » Government ownership and moderate support assumption provide a rating uplift
- » Cash sweep mechanism on principal payments suitable for the volatile traffic profile

Credit challenges

- » Lack of tariff increases
- » Volatile traffic performance
- » Limited liquidity buffer available to bondholders

Rating outlook

The negative outlook reflects the negative outlook of the Government of Panama (Baa2) given the strong linkages of the government with the toll roads.

Factors that could lead to an upgrade

In light of the negative outlook, upward rating pressure on ENA Norte's rating is unlikely in the near future. The rating outlook could return to stable as a result from the stabilization of Panama's rating outlook. Additionally, a growth in cash flow available for debt service due to stronger traffic performance, tariff increases or cost control leading to a DSCR higher than 1.2x on a sustained basis could place positive pressure on the rating.

Factors that could lead to a downgrade

Downward pressure on ENA Norte's rating 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 DSCR remaining below 1.0x would also exert downward pressure on the rating.

Key indicators

Exhibit 2

ENA Norte Trust

	2017	2018	2019	2020	2021	2022 E	2023 E
Cash interest coverage [1]	2.7x	3.0x	3.5x	1.8x	2.8x	3.6x	4.4x
Moody's DSCR (annuity) [2]	1.1x	1.2x	1.3x	0.6x	0.9x	1.0x	1.1x
Debt to operating revenues	5.4x	4.6x	4.3x	6.9x	4.7x	3.5x	2.7x
Annual Revenue (USD Million)	82.0	86.4	83.2	48.3	65.0	75.3	80.7

[1] Cash interest coverage reflects mandatory interest payments only.

[2] Debt service annuity refers to the annuity-type payment of interest and principal required to repay outstanding debt over the life of the concession. Debt service annuity is calculated using a standard formula for the present value (PV) of an annuity payment.

Key indicators for 2022 and 2023 are our estimates.

Sources: ENA Norte and Moody's Investors Service

Profile

ENA 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 the Corredor Norte system through its wholly owned subsidiary ENA Norte in October 2012. ENA Norte Trust is a special-purpose financing vehicle that

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was created for the purpose of this transaction. ENA Norte's shares were transferred into the trust along with the assigned rights and pledges of various accounts.

The Corredor Norte highway spans the northern part of Panama City, the capital of the Republic of Panama, complementing the Corredor Sur highway that runs along the shore in the south. Corredor Norte currently consists of three two-lane segments, totaling 33 kilometers (km), and one additional segment (Phase IIB) that is currently in operation but not a part of this transaction. ENA Norte is the issuer of debt to finance a portion of the acquisition price of the concession from PYCSA Panama, S.A. (PYCSA).

The road system is owned by the Republic of Panama. However, in 1994, the Republic of Panama granted PYCSA a 30-year concession (that ends in 2029) to study, design, construct, maintain, administer, exploit and finance Corredor Norte. In 2006, PYCSA transferred the rights under its original concession of the Autopista Colon segment (the 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 Maxipista de Panama, S.A. Maxipista de Panama S.A. subsequently transferred its rights to ENA, a Panamanian corporation wholly owned by the Republic of Panama.

Detailed credit considerations

Exceptional market position as a key thoroughfare in Panama City

Corredor Norte is a mature 33-kilometer (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 the Transismica interchange; the 14-km dual two-lane highway Madden segment; and a 6.2-km dual two-lane segment that extends from the Transismica interchange to Brisas del Golf. The segments have been tolled since 1998, 1999 and 2009, respectively.

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 Panama City, the nation's capital. Panama City is the economic and financial center of the country and benefits from the banking, insurance, logistics, commerce and tourism sectors. The population of the country is around four million, with more than one-third of the population living in the Panama City metro area.

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. In 2019, line 2 started operations and the Domingo Díaz road resumed its regular operations, which resulted in a contraction of 3.9% in ENA Norte's traffic performance compared with that in the previous year.

Volatile traffic growth with a steady increase in 2022

ENA Norte's traffic grew 7% annually on average from 2016 to 2018; however, in 2019 and 2020, it decreased by 3.9% and 45.3%, respectively, because of competition from the metro line 2, which started operations in 2019, and mobility restrictions arising from the pandemic (see Exhibit 1).

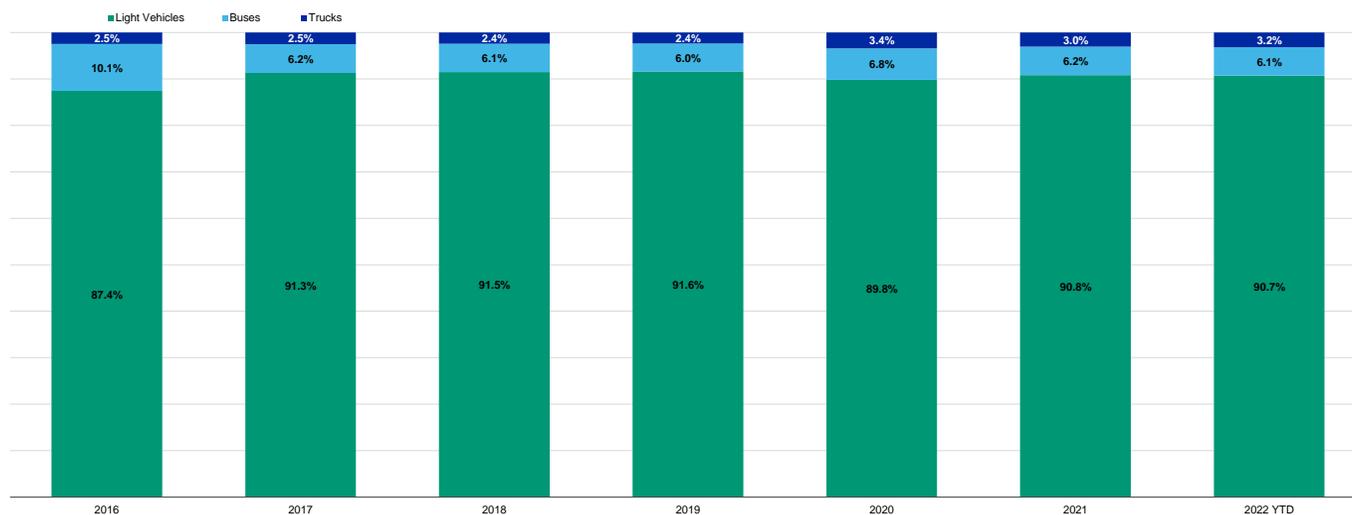
The toll road has shown a volatile traffic profile during the last seven years. The five-year compound annual growth rate (CAGR) from 2015 to 2019 was 4.3%. However, traffic declined 3.9% as of year-end 2019, driven mainly by the start of operations of the metro line 2, which offers a better transit than the alternative route, Domingo Díaz road.

Additionally, the pandemic led to a sharp drop in traffic and revenue, resulting in a 45% and 43% decline, respectively, in 2020. During the first 8 months of 2022, ENA Norte recorded an increase in traffic of 7.7% year over year. However, traffic remained 23.8% below the 2019 level, and we expect it to fully recover by 2025.

During July 2022, ENA Norte registered a 7% decline in traffic due to social protests in Panama which led to blockage of the corridor at peak hours during a week. This was an isolated event that had no material impact in ENA's numbers as traffic volume rose 22% the following month (August). While we do not expect traffic to decline again in 2022, we will keep monitoring traffic performance.

The toll road's traffic profile has remained steady despite fluctuations in volume. Around 91% of the traffic YTD 2022 was related to cars and motorcycles because it is a principal route for commuters in the Panama City metro area. There was a slight decline in the number of buses and trucks in 2021 compared with 2020.

Exhibit 3

Traffic composition

Source: ENA Norte

The cost of travel along the full length of the current system is \$3.65, which translates into \$0.19 per km, a fairly low level among toll roads in Latin America. As such, revenue growth does not depend on toll increases, which are likely to remain constant through the life of the concession. Instead revenues will depend mostly on traffic, fueled by economic growth, higher car ownership rates, population growth and increased ridership.

Inability to increase leverage and cash sweep mechanism

As provided by the debt documents, the concessionaire cannot increase leverage or pursue significant sources of revenue outside this concession. These terms safeguard the enterprise from any opportunistic corporate activity that may subject the bondholders to higher risk.

Additionally, the operating cash shortfalls did not have an impact on the six-month Debt Service Reserve Fund (DSRF) because the structure only has mandatory interest payments, while the principal is repaid from available cash using a cash sweep mechanism. During 2021, \$28.9 million of principal was repaid from the cash sweep mechanism, compared with \$13.6 million in 2020 and \$46.7 million in 2019. While the principal repayment was lower than expected in 2021, the concessionaire's ability to recover the pace of principal payments to the outstanding debt amount is an important credit consideration.

We expect under our updated base case that the notes are going to be repaid in 2027, compared to the legal maturity of April 2028. While ENA Norte benefits from a relatively short tail, we expect the concession will be extended well behind 2029, mitigating refinancing risk.

Government ownership provides rating uplift

As part of this transaction, the concession to operate the 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 government acquisition of this concession was partly 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 the interest-only debt service coverage for the four most recent quarters is at least 1.75x. We project it will reach at least 2.5x in any future quarter, and the notes can still be paid in full at least six months before 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.

Our analysis considers ENA Norte a 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 level of dependence on and support from the federal government. ENA Norte's BCA was determined to be ba1. The level of dependence was designated as very high because of 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; revenue for both is derived from the same population base and both face very similar credit risks. The level of expected support is moderate because of the close links between the government and ENA Norte, the importance of the road to the national transport system and the implicit government support demonstrated for the road through this transaction.

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

Liquidity analysis

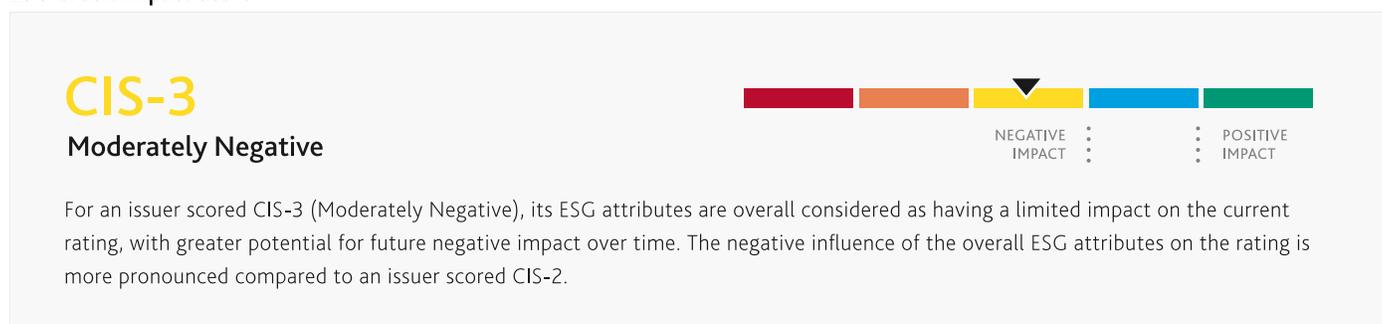
ENA Norte maintains six months of interest payments in its DSRF per transaction documents, which is relatively weak for these types of structures. Its major maintenance reserve fund of \$1.25 million and capital expenses reserve fund of \$1.5 million offer bondholders an additional liquidity buffer, but remain below average. The agreement prohibits a decrease in toll rates unless the interest-only debt service coverage for the four most recent quarters is at least 1.75x. We project it will reach at least 2.5x in any future quarter, and the notes can still be paid in full at least six months before legal maturity.

ESG Considerations

ENA Norte Trust's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 4

ESG Credit Impact Score



Source: Moody's Investors Service

ENA Norte's ESG Credit Impact Score is moderately negative (**CIS-3**), indicating that its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. Its score reflects neutral-to-low exposure to environmental risks, moderately negative exposure to governance risks, and highly negative exposure to social risks.

Exhibit 5

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

ENA Norte's exposure to environmental risks is neutral-to-low (**E-2** issuer profile score), as it relates to water management, waste and pollution and natural capital risks given ENA's understanding on how to manage these risks after more than 15 years of operating

the toll road. Exposure to physical climate risks is also neutral-to-low as heavy rains only modestly reduce traffic when they occur seasonally and have not caused material physical damage to date. Mitigating factors include insurance policies, regulations that allow the recovery of unforeseen costs or losses, and state intervention. We also recognize that ENA Norte is a unique and resilient asset, providing an essential and critical service in Panama City.

Social

The issuer's exposure to social risks is highly negative (**S-4** issuer profile score), reflecting highly negative risks associated to customer relations. Despite the concession agreement allows ENA Norte Trust to increase tariffs by inflation every year, government concerns over affordability issues have resulted in a lack of tariff increases for more than 15 years. The score also considers neutral-to-low risks for demographic and societal trends, human capital, health & safety, and responsible production.

Governance

Governance risk is moderately negative (**G-3** issuer profile score) given ENA Norte Trust's exposure to public policy decisions that have led to a lack of tariff increases. However, these risks are offset by its debt structure with project finance credit enhancements. The structure only has mandatory interest payments, while the principal is repaid from available cash using a cash sweep mechanism. Our governance score also considers a neutral to low exposure to management credibility and track record, organizational structure, compliance and reporting as well as board structure and policies.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Methodology and scorecard

The principal methodologies used in this rating were our [Publicly Managed Toll Roads and Parking Facilities](#), published on 12 March 2019, and [Government-Related Issuers Methodology](#), published on 21 February 2020. The scorecard is a reference tool that can be used to approximate credit profiles. However, the scorecard is a summary that does not include every rating consideration. The one-notch difference between the scorecard-indicated outcome and the assigned BCA (ba1) reflects the volatility in traffic and the lack of tariff increases.

Exhibit 6

Rating factors

ENA Norte Trust

Publicly Managed Toll Road and Parking Facilities Industry [1][2]	Current LTM 31/12/2021		Moody's 12-18 Month Forward View As of 26/4/2022 [3]	
	Measure	Score	Measure	Score
Factor 1 : Market Position (45%)				
a) Asset Type	A	A	A	A
b) Competitive Position and Environment	Baa	Baa	Baa	Baa
c) Economic Strength and Diversity of Service Area	A	A	A	A
Factor 2 : Performance Trends (35%)				
a) Annual Revenue (USD Million)	\$64.9	Baa	\$78.0	Baa
b) Operating Track Record and Revenue Stability	A	A	A	A
c) Ability and Willingness to Increase Rates	B	B	B	B
Factor 3 : Leverage and Coverage (20%)				
a) Debt Service Coverage Ratio	0.9x	Caa	1.1x	B
b) (Debt + ANPL) to Operating Revenue	4.7x	A	3.1x	Aa
Notching Adjustments:				
a) Debt Service Reserve Fund		-0.5		-0.5
b) Open Flow of Funds		0		0
c) Days Cash on Hand		-1		-1
d) Asset Ownership and Financing Structure		-0.5		-0.5
e) Leverage Outlook		0		0
Rating:				
Scorecard-Indicated Outcome before Notching Adjustments		Baa2		Baa1
Notching Adjustments		-2		-2
a) Scorecard-Indicated Outcome		Ba1		Baa3
b) Actual Rating Assigned		Baa3		Baa3
Government-Related Issuer		Factor		Factor
a) Baseline Credit Assessment		ba1		ba1
b) Government Local Currency Rating		Baa2		Baa2
c) Default Dependence		Very High		Very High
d) Support		Moderate		Moderate
e) Actual Rating Assigned		Baa3		Baa3

[1] All quantitative credit metrics incorporate our standard adjustments to the financial statements for non-financial corporations. [2] As of 26/4/2022. [3] This represents our forward view, on average, for 2022 and 2023, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
ENA NORTE TRUST	
Outlook	Negative
Senior Secured	Baa3

Source: Moody's Investors Service

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