

## CREDIT OPINION

8 September 2020

Update

✓ Rate this Research

### RATINGS

#### ENA Norte Trust

Domicile	Panama
Long Term Rating	Baa3
Type	Senior Unsecured - 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

### Credit Update

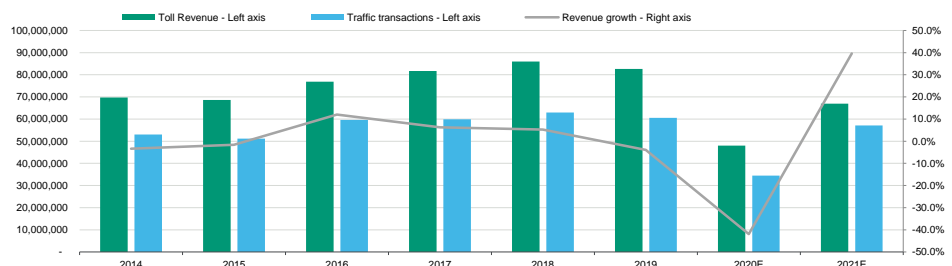
#### Summary

The credit profile of [ENA Norte Trust](#) (ENA Norte, Baa3 negative) benefits from its strong fundamentals, including its position as a key transport asset in a strong service area in Panama and its links with the [Government of Panama](#) (Baa1 stable). Its credit quality also reflects our expectation about the deterioration in its liquidity and financial performance, which will be driven by weaker projected traffic performance amid the coronavirus pandemic.

ENA Norte's transactions grew 7% annually on average from 2016 to 2018, but in 2019, they decreased by 3.9%. ENA Norte's traffic is relatively volatile and last year's decline was mainly driven by the start of operations from line 2 of the metro. Additionally, because of the coronavirus pandemic, we expect traffic to decline around 42% in 2020, but we expect that it will recover partially in 2021.

Exhibit 1

**We expect a decline in traffic and revenue close to 42% in 2020 and a partial recovery in 2021**



Sources: ENA Norte and Moody's Investors Service projections

#### Credit strengths

- » Exceptional market position as a key thoroughfare in Panama City
- » Government ownership, which provides rating uplift
- » Inability to increase leverage

#### Credit challenges

- » Lack of tariff increases
- » Volatile traffic performance, with an expected decline in 2020
- » Limited liquidity available to bondholders

## Rating outlook

The outlook on the rating is negative, which reflects the risks stemming from the impact of the coronavirus pandemic on traffic and cash generation capacity, which could lead to weaker liquidity.

## Factors that could lead to an upgrade

In light of the negative outlook, upward rating pressure on ENA Norte's ratings is unlikely in the near future.

## Factors that could lead to a downgrade

The rating could be downgraded if the coronavirus pandemic has a longer and continued impact on traffic that leads to a significant reduction in available liquidity and sustained financial deterioration.

## Key indicators

Exhibit 2

### ENA Norte Trust

	2015	2016	2017	2018	2019	2020E	2021E
Cash interest coverage [1]	2.0x	2.4x	2.7x	3.0x	3.5x	1.7x	2.8x
Moody's DSCR (annuity) [2]	0.9x	1.1x	1.1x	1.2x	1.3x	0.6x	0.9x
Debt to operating revenues	7.6x	6.3x	5.4x	4.6x	4.3x	7.2x	4.7x
Annual Revenue (USD Million)	69.0	77.4	82.0	86.4	83.2	48.0	67.0

[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 2020 and 2021 are Moody's estimates.

Sources: Moody's Investors Service and ENA Norte

## Profile

ENA Norte Trust (ENA Norte) is a special-purpose financing vehicle that was created in October 2012 to acquire and manage the Corredor Norte 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 two-lane segments, totaling 33 kilometers (km), and one additional segment (Phase IIB) that is currently in operation but is not a part of this transaction. ENA Norte Trust is the issuer of debt to finance a portion of the acquisition price of the concession from PYCSA.

The road system is owned by the Republic of Panama, but in 1994 was granted to PYCSA Panama, S.A. (PYCSA) a 30-year concession (that ends in 2028 and 2029) to study, design, construct, maintain, administer, exploit and finance Corredor Norte. In 2006, PYCSA transferred the rights under its original concession of 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 Maxipista de Panama, S.A. Maxipista de Panama subsequently transferred its rights to ENA, a Panamanian corporation wholly owned by the Republic of Panama.

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.

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Detailed credit considerations

### Exceptional market position as a key thoroughfare in Panama City

Corredor Norte is a mature 33 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 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, and benefits from banking, insurance, logistic, commerce and tourism sectors. The population of the country is around four million, with more than one-third of the people 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 affected ENA Norte's traffic performance with a contraction of 3.9% compared with the previous year.

### Volatile traffic performance, with an expected decline in 2020

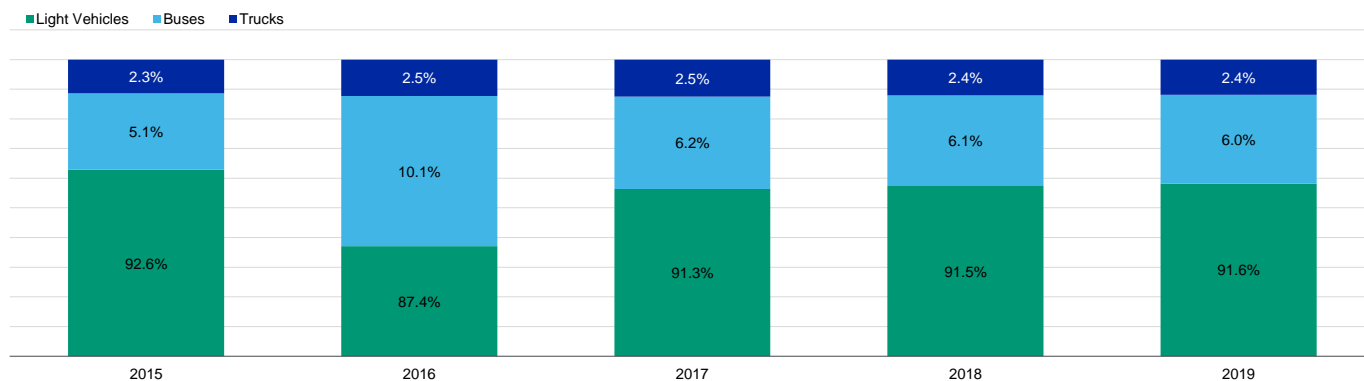
The toll road has experienced adequate but volatile traffic volumes over the years. The five-year compound annual growth rate (CAGR) from 2015 to 2019 was 4.3%. However, traffic declined 3.9% as of year-end 2019, driven mainly by the start of operations from line 2 of the Metro, which allows a better transit from the alternative route Vía Domingo Díaz.

The coronavirus pandemic is leading to a period of sharp drop in traffic that is expected to continue over the next few months. From January to April 2020, traffic declined 37% on an accumulated basis with respect to 2019. We expect the poor traffic performance to continue over the following months with a gradual recovery toward the end of the year, but not fully. We expect traffic and revenue to decline close to 43% in 2020 against 2019, which could lead to operating cash shortfalls and the need to draw from the six-month Debt Service Reserve Fund (DSRF).

The toll road's traffic profile has remained steady despite the ups and downs in volume. Around 91.6% of the transactions in 2019 were related to cars and motorcycles because it is a principal route for commuters in the Panama City metro area. We view this traffic composition as a credit positive because 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 likely to reduce time and improve traffic further. 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. Revenue growth is not likely to depend on toll increases, which are likely 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.

### **Inability to increase leverage**

As provided by the debt documents, there is no ability to increase leverage and there is no ability to pursue significant sources of revenue outside of this concession. These terms safeguard the enterprise from any opportunistic corporate activity that may subject the bondholders to higher 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 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 the four most recent quarters is at least 1.75x and we project it will reach at least 1.50x in any future quarter, and the notes can still be paid in full one year 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 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 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, and revenue for both is derived from the same population base and face very similar credit risks. The level of expected support was designated as 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.

### **Environmental, social and governance (ESG) considerations**

ENA Norte faces limited impact from environmental risks. Nonetheless, traffic volumes are fundamentally linked to macroeconomic trends, business sentiment, population growth and personal mobility requirements. Toll road traffic can also be affected by extreme weather or natural disasters. Mitigating factors include insurance policies, regulations in some jurisdictions that allow the recovery of unforeseen costs or losses, and state intervention.

ENA Norte faces high exposure to social risks. Given the substantial implications for public health and safety that lead to severe restrictions to business activity and mobility, toll road issuers have been affected by the slowdown in economic activity and mobility restrictions.

ENA Norte's governance risk is considerable, illustrated by the lack of tariff increases despite the fact that tariff adjustment formulas and procedures are contractually agreed upon.

Further details are provided in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#).

### **Liquidity analysis**

ENA Norte maintains six months of interest payments in its DSRF per transaction covenants, 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 interest-only debt service

coverage for the four most recent quarters is at least 1.75x and we project it will reach at least 1.50x in any future quarter, and the notes can still be paid in full one year before legal maturity.

## Methodology and scorecard

The principal methodologies used in this rating were [Publicly Managed Toll Roads and Parking Facilities](#), published on March 12, 2019, and [Government-Related Issuers](#), published on February 21, 2020. 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 one-notch difference between the scorecard-indicated outcome and the assigned BCA (ba1) reflects the volatility in traffic and the absence of tariff increases.

Exhibit 4

### Rating factors

ENA Norte Trust

Publicly Managed Toll Road and Parking Facilities Industry [1][2]		Current LTM 12/31/2019
Factor 1 : Market Position (45%)	Measure	Score
a) Asset Type		A
b) Competitive Position and Environment		Baa
c) Economic Strength and Diversity of Service Area		Aa
<b>Factor 2 : Performance Trends (35%)</b>		
a) Annual Revenue (USD Million)	\$82.6	Baa
b) Operating Track Record and Revenue Stability		A
c) Ability and Willingness to Increase Rates		B
<b>Factor 3 : Leverage and Coverage (20%)</b>		
a) Debt Service Coverage Ratio	1.3x	Baa
b) (Debt + ANPL) to Operating Revenue	4.3x	A
<b>Notching Adjustments:</b>		
a) Debt Service Reserve Fund		-0.5
b) Open Flow of Funds		0
c) Days Cash on Hand		-1
d) Asset Ownership and Financing Structure		-0.5
e) Leverage Outlook		0
<b>Rating:</b>		
Scorecard-Indicated Outcome before Notching Adjustments		Baa1
Notching Adjustments		-2
a) Scorecard-Indicated Outcome		Baa3
b) Actual Rating Assigned		Baa3

[1] All quantitative credit metrics incorporate Moody's standard adjustments to the financial statements for non-financial corporations. [2] As of 12/31/2019.

Source: Moody's Investors Service

## Ratings

Exhibit 5

Category	Moody's Rating
<b>ENA NORTE TRUST</b>	
Outlook	Negative
Senior Unsecured	Baa3

Source: Moody's Investors Service

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