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Research Update:

# ENA Sur Trust Rating Lowered To 'B' From 'B+' On Tigher Coverage Metrics; Still On CreditWatch Negative

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## Rating Action Overview

- We updated our projections for Panamanian toll road ENA Sur Trust (ENA Sur) to incorporate our expectation of a slower-than-expected traffic recovery for the second half of the year due to an extension of the lockdown. We now expect a traffic drop of about 45% in 2020 versus our previous expectations of 40%. On the other hand, we've seen that the project has managed to reduce and postpone part of the operating and capital expenditures (capex) in the first half of the year, but we don't expect that the lower costs will offset the reduction in revenues. As a result, we now anticipate a minimum debt service coverage ratio (DSCR) of 0.95x in February 2021 and ENA Sur's use of existing liquidity reserves for the debt payments in August and November 2020.
- On Aug. 18, 2020, S&P Global Ratings lowered its issue-level rating on ENA Sur's Class A $170 million notes to 'B' from 'B+'.
- The CreditWatch with negative implications reflects a 50% chance of a further downgrade in the next three months if the project's cash flows don't recover and we anticipate that ENA Sur won't be able to replenish its debt service reserve account (DSRA) by February 2021, which would potentially trigger an event of default according to the terms and conditions of the debt. This situation might occur if, leaving other variables constant, traffic decreases by 50% in 2020.

## Rating Action Rationale

**Our updated base case considers a higher traffic drop for the second half of the year, leading to tighter financial metrics in 2020 and the partial use of the liquidity reserves for the next two coupon payments.** Traffic levels have remained slightly better than expected since May 2020--on average about 70% lower than in 2019--while we previously projected a traffic drop of 85%. However, in light of a new wave of coronavirus infections, the government decided to postpone part of the implementation of stage III of the de-confinement plan, which includes relaxing the lockdown of additional sectors. Those sectors (particularly retail and distribution sector) finally resumed operations on Aug. 17, 2020, while we previously expected them to start operating at the beginning of July. Moreover, we now expect the following stages (IV to VI) will also be postponed. Thus, we now expect a traffic drop close to 45% in 2020, rather than our previous 40%, leading to annual revenues in 2020 of $35 million-$40 million, versus the previous $40 million-$45 million.

Moreover, we now project a total annual reduction in costs of 25% (or $4 million) in 2020compared with our previous expectations, which includes lower billing costs of the operator Maxipista de Panama S.A. (Maxipista; not rated), taxes and other minor maintenance costs of about $2 million, and the postponement of about $2 million of capex. Still, the lower costs won't fully offset the expected lower revenues for 2020. Consequently, we now expect a minimum DSCR of 0.95x, versus our previous expectation of 1.25x, and ENA Sur's use of the DSRA (which as of the date of this report accounted for about $9.6 million) in August and November to cover cash shortfalls of $2 million and $1 million, respectively.

Although its financial situation is fragile, we still believe ENA Sur will replenish the DSRA by February 2021, thus avoiding the event of default associated with the failure to maintain a fully funded DSRA for six consecutive months. In addition, if traffic underperforms our expectations, the project still has some flexibility to postpone or reduce further a portion of its costs, totaling close to $4 million, which we positively captured in our analysis.

**Environmental, social, and governance (ESG) factors relevant to the rating action:**

- Health and safety.

## CreditWatch

The CreditWatch negative reflects a 50% chance of a further downgrade in the next three months if we anticipate that ENA Sur won't be able to replenish the reserve account by February 2020 due to a slower-than-expected traffic recovery in 2020. This could occur if annual traffic drops more than 50% in 2021.

We could revise the outlook to stable in the next three months if the annual DSCR increases to above 1.05x. This could occur, for example, if traffic starts to recover effectively by the third quarter of the year, with monthly traffic above 3.8 million cars (about 65% of 2019 traffic in the same period) or if operating expenses or capex drop by 12% from our base-case scenario.

## Project Description

ENA Sur S.A. has the concession to design, construct, maintain, administer, and operate the Corredor Sur toll road in Panama City. The toll road has been fully operational since February 2000, and the concession expires on the earlier of June 2029, or on the date on which the notes (class A and B) will be fully paid, which our base-case scenario assumes will occur in the first half of 2025.

Maxipista provides the operating and maintenance (O&M) activities under a fixed-price contract of about $9 million that will remain in place during the notes' life. The operator is an experienced player in the toll road business that also operates the ENA Norte corridor.

## Base Case

### Assumptions

- Traffic decrease of about 45% for 2020, with a recovery to 57 million vehicles in 2021 (93% of 2019 traffic), and 61 million in 2022 (100% of 2019 traffic). Afterwards, we expect traffic to increase about 3%, slightly below Panamana's GDP growth, until the end of the notes' term.
- No tariff increases, in line with the trend in previous years, given the discretionary rate adjustment mechanism.
- Annual O&M, minor maintenance costs, and other costs of approximately $12 million in 2020, $11 million in 2021, and about $9 million from 2022 onward.
- Major maintenance costs of $5.5 million in 2020, $7.2 million in 2021, $9.2 million in 2022, and about $3.5 million form 2023 onward.

### Key metrics

Under this scenario, we expect the project to use about $3.0 million of the $9.6 million DSRA to cover the projected shortfall in the following two coupon payments due in August and November 2020. However, we expect ENA Sur will be able to replenish the reserve account before February 2021, as long as recovery occurs as expected. We then expect DSCR will remain on average above 2.25x until the notes mature.

## Downside Case

### Assumptions

- Traffic drop of 50% for 2020, and a slower recovery for 2021 with the total amount of vehicles about 88% of that of 2019. The rest of our expectations are aligned to the base-case scenario.
- O&M and capex costs up 10% over our base-case assumptions.

### Key metrics

With a traffic drop of 50% in 2020 and slightly higher costs, we believe the company won't be able to replenish the reserve account by February 2021, triggering an event of default. As such, bondholders might declare the early amortization of the notes, and therefore the project would deplete the reserve account in less than a year from now.

## Ratings Score Snapshot

Operations phase SACP (Senior debt)

- Operations phase business assessment (OPBA): 5 (1=best to 12=worst)
- Preliminary SACP: b-

- Downside impact on preliminary SACP: b (no impact)
- Liquidity: Less than adequate (no impact)
- Comparative analysis assessment: Positive (+1 notch)
- Material dependence on cash flow sweeps: Neutral (no impact)
- Adjusted preliminary operations phase SACP: b
- Operations counterparty ratings adjustment: Neutral
- Financial counterparty ratings adjustment: Neutral (no impact)
- Operations phase SACP: b

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: B

### Liquidity

We revised ENA Sur's liquidity to less than adequate given that financial covenants has limited headroom under our new base case scenario, and we do expect the project to use the DSRA in the short term.

## Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Corporates | Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Key Credit Factors For Road, Bridge, And Tunnel Project Financings, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

**Downgraded**

| | To | From |
|---|---|---|
| **ENA Sur Trust** | | |
| Senior Secured | B/Watch Neg | B+/Watch Neg |