

## **RATING ACTION COMMENTARY**

# **Fitch Affirms ENA Norte's Notes; Outlook Stable**

Wed 10 May, 2023 - 1:43 p. m. ET

Fitch Ratings - Mexico City - 10 May 2023: Fitch Ratings has affirmed the Long-Term rating on ENA Norte Trust's (ENA Norte) USD600 million notes at 'BB' and the national Long-Term rating at 'A+(pan)'. The Rating Outlook is Stable. The standalone credit profile (SCP) is assessed at 'b+'.

## **RATING RATIONALE**

ENA Norte's ratings reflect a strong and mature asset with a long operational track record. The project has the contractual ability to adjust tolls according to inflation. However, given tolls have not been increased since the issuance of the notes, Fitch continues to assume that tolls will remain unchanged over the life of the notes. ENA Norte's debt structure is robust as the totality of the toll revenue is dedicated to cover operational and financial obligations and has allowed for the project's gradual deleveraging.

Under Fitch's Rating Case, minimum Loan Life Coverage Ratio (LLCR) is 0.5x in 2028, which indicates the debt is not fully repaid at maturity. Despite this, the SCP is supported by Fitch's view that the concessionaire will be able to refinance its debt considering the below 1x leverage expected at maturity and the government's ability to implement credit protection measures to enable the concessionaire to refinance and/or repay its debt.

According to Fitch's Government-Related Entity criteria, the agency's strong assessment for the strength of the link between the Panamanian government and the project, and a moderate assessment of the perceived incentive of government support when needed, in

combination with the four-notch distance between the issuer's SCP at 'b+' and Panama's sovereign rating at 'BBB-/Stable, results in a top-down minus two approach, as described in Fitch's applicable criteria.

The national scale rating of 'A+(pan)' with a Stable Outlook reflects ENA Norte's credit quality relative to other rated issuers and issuances within Panama.

## **KEY RATING DRIVERS**

Limited Volume Risk - Revenue Risk (Volume): Midrange:

The corridor operates in a strong reference market, the city of Panama, with a long track record of traffic, showing moderate volatility, and plays an important connectivity role for commuters and commercial traffic within the city's broader road network. Given the recent infrastructure changes in the city, the assets face competition from free alternatives and other transportation modes.

Fixed Toll Rates - Revenue Risk (Price): Weaker

Although the concessionaire is entitled to annually adjust toll rates at inflationary levels, toll rates have not been increased by inflation and are not expected to be updated in the medium term. Toll rates are structurally protected with a covenant that prohibits toll rate reductions if the debt service coverage ratio (DSCR) does not meet a minimum threshold.

Suitable Infrastructure Plan - Infrastructure Development and Renewal: Midrange

Sound contractual requirements to fund capex costs are in place for the corridors. According to the independent engineer, the physical condition of Corridor Norte is not at its best and requires immediate major maintenance. The concessionaire has short- and medium-term maintenance plans in place to perform the work required in certain sections of the corridors. The capital investment program is internally funded.

Conservative Debt Structure - Debt Structure: Stronger

ENA Norte Trust's debt structure has fixed interest rate, full cash sweep of excess cash flows and has a six-month debt service reserve account for interest payments.

## **Financial Profile**

Under Fitch's rating case, ENA Norte's minimum LLCR in the rating case is 0.5x and is very weak according to Fitch's applicable criteria, and debt is not fully repaid at its maturity in 2028 (USD18 million are estimated to remain outstanding). Nonetheless, the rating is supported by Fitch's belief that the low expected leverage at maturity will enable the concessionaire to refinance the notes and that the Government of Panama has the capacity and motivation to find a suitable solution for the notes before maturity.

## **PEER GROUP**

ENA Norte is comparable with Autopistas del Sol (AdS; 'B'/Stable). Both projects provide critical connectivity within their respective areas and are subject to increasing competition from free alternatives, but Fitch assesses Price Risk as Weaker for ENA Norte and as Midrange for AdS. AdS's average DSCR is higher at 1.2x than the 0.5x coverage metric of ENA Norte, whose ratings are supported by the government's ability to implement credit protection measures and the ability to refinance the debt in the medium term.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Traffic performance materially worse than Fitch's rating case projection of 142,570 Average Annualized Daily Traffic (AADT) for 2023;

--If Government delays taking timely actions to either refinance the debt or create conditions for the debt payment;

--Multi-notch downgrade on Panama's sovereign rating.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Government actions that create better conditions for ENA Norte to repay its debt.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical

performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT UPDATE**

In 2022, AADT reached 136,750 vehicles, representing 79% of 2019's AADT and below Fitch's expectation of an 85% recovery of pre-pandemic traffic. Revenues totaled USD66.9 million, also below Fitch's expectation of USD69.5 million, mainly driven by a lower-than-expected volume.

According to the issuer, this slower traffic and revenue recovery was caused by a sluggish start of the year due to the Omicron variant of the coronavirus, a lengthier back-to-the-office process from commuters, and high fuel prices. Also, during July 2022, there were social protests in Panama due to rising costs of fuel, that caused temporary closures of the corridors. The government has since implemented measures to appease the protests.

Cash flow available for debt service (CFADS) in 2022 was 3% above expected mainly, because the project had lower than forecast expenses, considering that capex was USD2 million lower than projected given the postponement of the replacement of some of the road's concrete plates until 2023. Operational Expenses (opex) were in line with Fitch's expectations at USD13.4 million. Debt prepayments were also made according to Fitch's estimates at USD32.9 million.

As of March 2023, the trust maintains a debt service reserve account equivalent to two quarterly interest payments (six months) at USD6.8 million.

## **FINANCIAL ANALYSIS**

Fitch 'sbase case assumes traffic grows at an annual rate of 10.5%, 7.4% and 6.9% in 2023, 2024 and 2025, respectively, followed by a CAGR of 2.5%. Toll rates are assumed to remain fixed for the term of the debt. Opex were adjusted to assume a gradual increase to reach around USD13 million in 2024, the amount observed in 2019 in real basis, adding a 5% stress to both opex and capex. Inflation is projected at 2.5% in 2022, 2.0% in 2023 and 1.5% onwards. Under this scenario, LLCR minimum is 1x (in 2023) and debt is tightly but fully paid at maturity.

Fitch's rating case assumes traffic grows at an annual rate of 8.8%, 5.0% and 4.5% in 2023, 2024 and 2025, respectively, followed by a CAGR of 2.0%. Opex and capex assumptions are

in line with those of Fitch's base case but with an additional 2.5% stress. Tolls and inflation are projected with the same assumptions as in Fitch base case.

Under this scenario, LLCR is 0.5x and debt is not paid at maturity (2028), with a remaining balance of around than 3% of the original debt amount or USD18 million. This coverage is weak for ENA Norte's SCP rating, according to Fitch's applicable criteria. However, the SCP is supported by Fitch's view that the concessionaire will be able to refinance its debt considering the below 1x leverage expected at maturity and the government's ability to implement credit protection measures to enable the concessionaire to repay its debt.

## **SECURITY**

The Panama-Madden Segment (corridor Norte) is a 13.5-kilometer (8.4-mile) toll road that intersects Phase I on the eastern end and runs northwest, connecting to the Interstate Colon Highway. ENA Norte operates the toll road concession of Corridor Norte and has no other significant commercial activities. ENA Norte is a subsidiary of Empresa Nacional de Autopista S.A. (ENA). ENA is an entity wholly owned by the government of Panama, with the purpose of acquiring companies that have been granted concessions for the construction, maintenance and operation of toll roads.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

[www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## **RATING ACTIONS**

**ENTITY / DEBT** ⇅

**RATING** ⇅

**PRIOR** ⇅

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## ENA Norte Trust

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|--------------------------------|---------|-------------------------------|----------|--------------------------------|
| ENA Norte Trust/Debt/1 LT      | LT      |                               |          |                                |
| ENA Norte Trust 29248DAA0      | LT      | BB Rating Outlook Stable      | Affirmed | BB Rating Outlook Stable       |
| ENA Norte Trust USP3716XAA74   | LT      | BB Rating Outlook Stable      | Affirmed | BB Rating Outlook Stable       |
| ENA Norte Trust/Debt/1 Natl LT | Natl LT |                               |          |                                |
| ENA Norte Trust 29248DAA0      | Natl LT | A+(pan) Rating Outlook Stable | Affirmed | A+ (pan) Rating Outlook Stable |
| ENA Norte Trust USP3716XAA74   | Natl LT | A+(pan) Rating Outlook Stable | Affirmed | A+ (pan) Rating Outlook Stable |

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**APPLICABLE CRITERIA**

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Metodología de Calificación de Entidades Relacionadas con el Gobierno \(pub. 12 Nov 2020\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Transportation Infrastructure Rating Criteria \(pub. 16 May 2022\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificación para Infraestructura y Financiamiento de Proyectos \(pub. 06 Jul 2022\)](#)

[Metodología de Calificación de Infraestructura de Transporte \(pub. 06 Jul 2022\)](#)

[Infrastructure & Project Finance Rating Criteria \(pub. 20 Jul 2022\) \(including rating](#)

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ENA Norte Trust

EU Endorsed, UK Endorsed

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