

ISSUER IN-DEPTH

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 Rate this Research

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ENA Master Trust

Pre-sale report

Summary

- » Moody's assigned a Baa1 rating to the Senior Secured amortizing notes up to \$400 (expected maturity 2048; the "Notes") to be issued by ENA Master Trust ("Issuer"). The outlook on the rating is negative.
- » The notes are being issued to refinance existing debt of ENA Sur S.A. and ENA Este S.A., which are wholly owned subsidiaries of Empresa Nacional de Autopista, S.A. (ENA). ENA is a Panamanian corporation wholly owned by the [Government of Panama](#) (Baa1 negative).
- » The bonds will mature in May 19, 2048 and are secured by toll revenue from both toll roads, Corredor Sur and Corredor Este. The bonds will bear interest at a rate of 4%, payable semiannually and will require principal amortization payments.
- » The assigned rating considers Corredor Sur and Corredor Este toll roads' strong fundamental market position as key thoroughfares in Panama City, the nation's capital city and center of commerce, the history of steady growth in vehicle transactions and expectations of continued economic and population growth.
- » ENA Master Trust's BCA also takes into account a projected debt service coverage ratio and debt to operating revenue consistent with an Aa. Debt Service Coverage Ratio (DSCR) is expected to average 2.9x during the 10-year period with the lowest DCSR according to Moody's Base Case Scenario.
- » Moody's Base Case Scenario incorporates that the coronavirus outbreak is leading to a period of sharp drop in traffic that is expected to remain in next months. However, Moody's recognizes that the weak performance is partially compensated by ENA Master Trust's project finance provisions in the structure and a 5-year grace period for principle payments.
- » The structure considers various credit enhancements including a 12-month forward looking major maintenance reserve, a capital expenditures reserve, and a debt service reserve fund equivalent to 12 months of interest and principle payments.
- » Moody's assessment of ENA Master Trust very high dependence on and strong expected implicit support from Panama (Baa1 negative) are also critical to the rating.

Credit strengths

- » Exceptional market position as key thoroughfares in Panama City
- » Government ownership
- » Restrictions to increase leverage

Credit challenges

- » Lack of tariff increases
- » Volatile traffic performance, with an expected decline in 2020

Rating outlook

The outlook on the rating is negative and mirrors the negative outlook of the [Government of Panama](#) (Baa1 negative).

Factors that could lead to an upgrade

In light of the negative outlook, upward rating pressure on ENA Master Trust'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.

Factors that could lead to a downgrade

Downward pressure could generate from a change in the economic prospects for Panama, or any other event that causes transaction volumes to stagnate or decline. Lack of tariff increases to satisfy debt service requirements when needed or a reduction in cash flows that results in DSCRs below 2.0x would also exert downward pressure on the rating.

Overview of Transaction

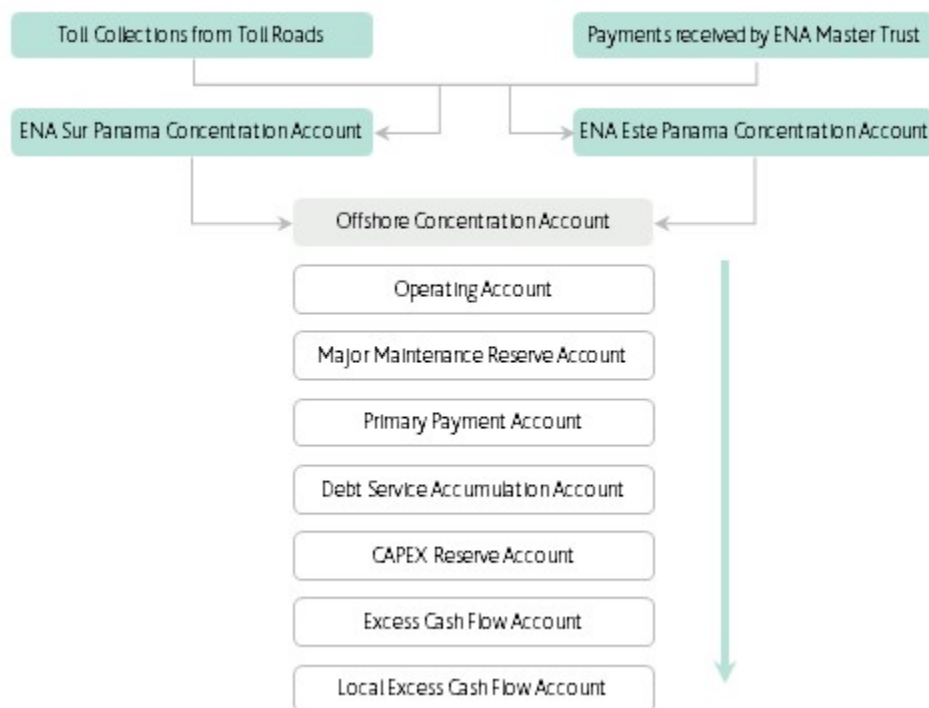
The ENA Master Trust is a special-purpose financing vehicle that was created to incur indebtedness and hold assets, after the redemption of the ENA Sur Notes and of the 2014 ENA Este Notes. ENA Master Trust will issue up to \$400 million of senior secured debt that will be supported by the consolidated toll road cash flows of ENA Sur's and ENA Este's corridors (Corridor Sur and Corridor Este). The Notes will be guaranteed by ENA Sur and ENA Este on a joint and several basis.

The proposed debt will be used to refinance the outstanding debt which is comprised of ENA Sur Trust 2025 Notes \$107.5 million and ENA Este Trust 2024 Notes of \$212 million. The remaining proceeds will be used for other expenses and for general corporate purposes. The notes will bear interest at a rate of 4%, payable semiannually in May 19 and November 19 each year. The final maturity date is May 19, 1948 and will require principal amortization payments starting in 2026.

The diagram below illustrates the allocations of collections and payments of the transaction. The Major Maintenance Reserve Account will be the sum of the amounts established in the major maintenance budget for the following four quarters based on the recommendations set forth in the most recent Independent Engineering Report. The Debt Service Accumulation Account will be equal to the sum of the two next interest and principle payments. The balance requirements for the Capital Expenditures (CAPEX) Account will equal the amount determined each year by the board of directors of ENA.

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 for the most updated credit rating action information and rating history.

Exhibit 1

Diagram of allocations of collections and payments

Source: ENA

Profile

ENA, a Panamanian corporation is wholly owned by Panama and was incorporated as a holding company to hold the companies to which the Government granted concessions to construct, preserve, operate, maintain, administer, finance and exploit, for themselves, highways or toll roads. ENA wholly owns ENA Sur, ENA Este and ENA Norte.

In 2011, ENA purchased the 100% of ENA Sur's capital stock, the concessionaire for the Corredor Sur Toll Road (Corridor Sur). Corridor Sur Toll Road runs in a north-east/south-west direction along the coast, connecting the western sector of Panama City (Paitilla), which includes the main business and financial district of Panama City and the new development of Punta Pacifica, and the eastern sector (Tocumen), which includes various suburban areas, the Tocumen International Airport and the Pan American Highway.

In 2013, ENA constituted ENA Este, the concessionaire for the Corredor Este Toll Road (Corridor Este). Corridor Este Toll Road is a highway that connects the township of Las Mananitas and the Panamerican Highway with the Corredor Norte Toll Road. Corridor Este brings traffic directly from the east of the Panama Canal and from the ports in Colon in the Atlantic Ocean directly to the Tocumen International Airport without having to go through Panama City.

Detailed credit considerations**Exceptional market position as a key thoroughfare in Panama City**

Corredor Sur Toll Road is a mature 19.8 km toll road network that operates since 2000 and is composed of three principal sections:

- » A 13.5 kilometer segment running from Tocumen International Airport to Costa del Este, which is home to a number of headquarters of major Panamanian and international companies;
- » A 2.47 kilometer marine viaduct between Costa del Este and the Atlapa Convention Center; and
- » A 3.8 kilometer segment including an overseas causeway within the urban sector running from Atlapa to Paitilla.

While Corridor Sur operates principally as a two-lane dual carriageway, a portion of the westbound and eastbound carriageways were widened to three lanes to accommodate increased levels of traffic.

Corridor Este has been fully operational since March 2017 and consists of a 9.8 kilometer section starting from the end of Corridor Norte at Brisas del Golf to the 24 de Diciembre and a separate 880 meter section from Gonzalillo to Pedregal that connects Corridor Norte at the Lajas interchange to the Gonzalillo-Pedregal Highway. Corridor Este is important as it brings traffic directly from the east of the Panama Canal and from the ports in Colon in the Atlantic Ocean directly to the Tocumen International Airport without having to go through Panama City. Corridor Este has four lanes, two in each direction.

The viability of the roads depend to a great extent on its service area. Both Corridors comprehend 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 roads 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 traffic performance with a contraction of 5.4% compared with the previous year for Corridor Sur and of 15% for Corridor Este.

Volatile traffic performance, with an expected decline in 2020

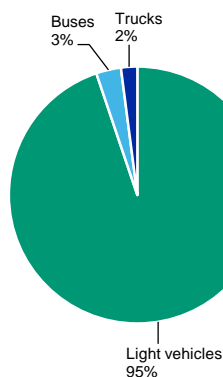
The toll roads have experienced adequate but volatile traffic volumes over the years. The five-year compound annual growth rate (CAGR) from 2015 to 2019 for both toll roads was 7.6%. However, traffic declined 6.8% as of year-end 2019, driven mainly by the start of operations from line 2 of the Metro, 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 July 2020, traffic declined 50.9% 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 44% in 2020 against 2019, which could lead to operating cash shortfalls. However, we recognize that the weak performance will be partially compensated by ENA Master Trust's project finance provisions in the structure and a 5-year grace period for principle payments.

The toll road's traffic profile has remained steady despite the ups and downs in volume. Around 95% 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 2

Revenue share by type of vehicle for 2019



Source: ENA

Both toll roads operate using an electronic collection system, called Panapass in which each user installs a Panapass sticker to their windshield and top up its account through several options. Each time that a vehicle passes through a toll facility, the Panapass sticker is read by a radio frequency identification. Once the vehicle leaves the Corridor Sur, the applicable tariff is discounted from the account of the user depending on the transited segment.

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.

Restrictions to increase leverage

As provided by the debt documents, ENA MAster could issue additional debt only if immediately after giving effect to the incurrence of such indebtedness, no default or event of default has occurred and will be continuing or will result from such Incurrence; and the issuer obtains a ratings affirmation in connection with such incurrence. These terms relatively safeguard the enterprise from any opportunistic corporate activity that may subject the bondholders to higher risk.

Government ownership

ENA Sur and ENA Este are 100% beneficially owned by ENA and ENA is owned by Panama. This has been the case since, in case of ENA Sur, the purchase of all of its capital stock by ENA in 2011, and, in case of ENA Este, its incorporation in 2012. Historically, ENA Sur and ENA Este boards of directors have been presided by the Minister of Public Works. The Panamanian government considers the Corridor Sur Concession and the Corridor Este Concession strategic assets to continue Panama's development, such as the Panama Canal, the Tocumen International Airport, and the Colon Free Zone. ENA Sur and ENA Este have never distributed dividends. They have instead invested most of their annual profits in developing their expansions, increased the quality of toll roads and services provided and improvements in their toll collection systems.

Our analysis considers ENA Sur and ENA Este as government-related issuers (GRIs), 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 baa1.

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 Sur and ENA Este, the importance of the roads to the national transport system and the implicit government support demonstrated for the roads through this transaction.

Financial Profile and Key Credit Metrics

Exhibit 3

Key Indicators

	2021	2022	2023	2024	2025
Debt Service Coverage Ratio	2.98	3.65	3.68	4.16	4.26
(Debt + ANPL*) to Operating Revenue	5.63	5.01	4.63	4.52	4.41

*ANPL: adjusted net pension liabilities

Source: Moody's Investors Service

Corridor Sur and Corridor Este have had relatively volatile traffic volumes. For instance, in 2018 traffic volume on the Corridor Sur increased 2.7% compared transits during 2017, while in 2019, transits decreased by 5.2%. Traffic volume in Corridor Este increased 24.0% in 2018 compared to transits during 2017, and in 2019, transits decreased by 14.1% compared to 2018.

Additionally, Moody's Base Case Scenario incorporates that the coronavirus outbreak is leading to a period of sharp drop in traffic that is expected to remain in next months. As a result, Moody's estimates a projected debt service coverage ratio and debt to operating revenue consistent with an Aa. Debt Service Coverage Ratio (DSCR) is expected to average 2.9x during the 10-year period with the lowest DCSR according to Moody's Base Case Scenario.

Liquidity analysis

ENA Master Trust will maintain 12 months of interest and principle payments in its Debt Service Accumulation Account per transaction covenants, which is standard for these types of structures. Its major maintenance reserve fund will be the sum of the amounts established in the major maintenance budget for the following four quarters based on the recommendations set forth in the most recent Independent Engineering Report. Additionally, the balance requirements for the CAPEX Account will equal the amount determined each year by the board of directors of ENA. These accounts will be funded with debt proceeds.

Environmental, social and governance (ESG) considerations

In Moody's assessment, environmental considerations are not material to ENA Master Trust's credit profile. Toll roads face limited impact from environmental risks, though the effect of car use on air pollution is gaining increasing attention and could result in restrictions on traffic and car purchases in selected areas through air quality and traffic control measures. Nonetheless, traffic volumes are fundamentally linked to macroeconomic trends, business sentiment, population growth and personal mobility requirements.

Social considerations are not material factors for ENA Master Trust's credit profile. Moody's base case scenario already considers the credit impact of COVID-19 outbreak given existing trends of lifestyle changes that which could potentially accelerate.

Governance considerations are material to ENA Master trust credit profile. Given ENA's institutional framework, we consider Government of Panama's support as an important factor for the rating.

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