

Research Update:

ENA Norte Trust 'BB-' Debt Rating Affirmed And Removed From CreditWatch Negative; Outlook Stable

August 16, 2023

Rating Action Overview

- We updated our base-case scenario for the Panamanian toll road ENA Norte Trust to traffic growth of 9%-11% for 2023 and 5% annually afterward, which will raise the project's cash flow available for debt service and debt prepayments, considering the cash flow sweep feature on its notes.
- As a result, we now expect ENA Norte to fully repay its notes by January 2028, prior to their legal maturity in April 2028, while in our downside scenario, the project would have a considerably narrower shortfall for the total repayment of its outstanding debt at maturity.
- On Aug. 16, 2023, S&P Global Ratings affirmed its 'BB-' issue rating on ENA Norte's debt and removed it from CreditWatch, where it had been placed with negative implications on Feb. 27, 2023.
- The stable outlook reflects our expectation that higher traffic volume will allow the project to fully repay its notes before legal maturity.

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Project Description And Key Credit Factors

ENA Norte has the concession to design, construct, maintain, administer, and operate the toll road of northern Panama City. The project currently includes the 33.4-kilometer (km) Panama-Madden segment and two branches, Villa Lucre and Zarate (Brisas del Golf), which are 3.3 km and 1.3 km, respectively. The project has been fully operational since May 2009. The right to administer the asset will expire in 2029 or on the date the rated notes will be fully paid, which our base-case scenario assumes will occur in January 2028.

ENA Norte is a subsidiary of Empresa Nacional de Autopistas S.A. (ENA; not rated). The latter is a company created and owned by the government of Panama (BBB/Stable/A-2) to build and operate toll roads in the country. Maxipista de Panama S.A. (not rated) provides the operations and maintenance (O&M) activities during the notes' term. We view Maxipista, which also operates the

south and east corridors, as an experienced player in the toll road business.

ENA Norte's \$600 million 4.95% senior secured notes due April 2028 (\$252 million outstanding as of July 2023) don't have a scheduled amortization. However, ENA Norte's cash waterfall mechanism uses any excess cash flow after the payment of operating costs, interest payments, and replenishment of the reserves to amortize the notes' outstanding principal amount. As such, we exclude principal payments from our debt service coverage ratio (DSCR) calculations. At the same time, we believe this mechanism overstates the project's metrics. Therefore, we incorporate a negative adjustment in our rating analysis to reflect that the metrics look stronger than for any other structure with a legal scheduled amortization.

Strengths

- The project benefits from having an experienced operator with a long track record in the industry.
- ENA Norte has a restricted capital structure because no dividend payments are allowed until 100% of the bond is paid, protecting the issuer's interests.
- The cash flow sweep feature on the project's notes provides more flexibility than other projects have.

Risks

- The project's toll rates, which are adjusted by the government on a discretionary basis, have remained flat during the past few years, and we expect no further changes.
- ENA Norte's revenue depends on traffic volume, and therefore a sharp dip could undermine the project's capacity to comply with its financial obligations.
- ENA Norte faces some competition from free alternative roads that could dent the project's traffic growth.
- The downside scenario limits the rating on the project, given that under hypothetically stressed levels of traffic, O&M expenses, and capital expenditure (capex), the project would be unable to fully repay its debt at maturity, even using the full amount of its reserve accounts.

Rating Action Rationale

The rating affirmation and stable outlook reflect the project's solid operating and financial performance so far in 2023, which we expect will persist in the next 12-18 months, lowering the debt's refinancing risks. In the first seven months of the year, ENA Norte's traffic volume increased by almost 13% year over year and debt prepayments totaled \$21 million, above our previous estimates of 7% and \$17 million, respectively. In our view, the higher traffic follows Panama's robust domestic economic recovery (see "Panama Outlook Revised To Stable From Negative On Solid Growth Prospects; 'BBB' Foreign Currency Rating Affirmed," Aug. 11, 2023).

Considering our higher GDP growth forecast for Panama, we now expect ENA Norte's traffic volume to grow 9%-11% in 2023 and around 5% annually thereafter, compared with our last projections of 6%-8% in 2023 and 2024, 5%-7% in 2025, and 4.5% thereafter. This would lead to principal payments of \$44 million to \$45 million in 2023 and \$47 million to \$49 million in 2024.

Therefore, we now forecast the project would repay the total outstanding notes in January 2028, one quarter before legal maturity (which was our previous base-case scenario).

Although our updated downside scenario results in a considerably narrower debt shortfall, this shortfall would still limit the debt rating. Under hypothetically stressed levels of traffic, O&M expenses, and capex, the expected shortfall is now \$42 million, significantly less than the \$71 million from our previous downside scenario. However, under this scenario, the project would still be unable to fully repay its debt at legal maturity, even using its \$6.8 million debt service reserve account. As a result, and considering ENA Norte's cash flow sweep feature on its notes, we continue to limit the rating at 'BB-'.

Outlook

The stable outlook reflects our expectation that traffic volume will grow 9%-11% this year and 5% annually afterward, in line with Panama's forecast GDP growth. This will allow ENA Norte to fully repay its notes one quarter before the legal maturity.

Downside scenario

We could lower the rating in the next 12-18 months if we envisioned a lower payment of principal in the medium term because of weaker traffic growth that could increase the risk of refinancing. We could also lower the rating if we believed that, under our downside scenario, the project would have a considerably larger shortfall for the total repayment of its outstanding notes at maturity.

Upside scenario

Although it is unlikely, we could raise the rating if traffic levels rose significantly above our expectations, bringing forward the date of the full repayment of the notes, and if we believed that under our downside scenario, the project would be able to fully repay its debt at legal maturity.

Base Case

Assumptions

- Traffic growth of 9%-11% in 2023, in line with the project's year-to-date traffic volume, and 5% in 2024 and thereafter, with 1x elasticity with Panama's GDP growth
- No toll increases, in line with the trend of previous years, given the discretionary nature of the rate-adjustment mechanism
- Minor maintenance (O&M and selling, general, and administrative) costs to increase in line with Panama's inflation, which we expect to be 2% in 2023 and 2024 and 1.5% in 2025 and afterward
- Major maintenance costs (capex) of about \$5 million in 2023, \$7 million in 2024, and \$5 million in 2025

Key metrics

- A minimum DSCR of 4.45x in 2023
- A median DSCR of 7.58x during the notes' term

Downside Case

Assumptions

- We model a downside stress scenario assuming a five-year down cycle with a traffic reduction of 6% from the base-case growth rate in 2023 and 2024, followed by a 3% reduction in 2025, 2026, and 2027.
- Minor and major maintenance expenses 10% higher than in our base-case scenario between 2023 and 2027

Key metrics

- A minimum DSCR of 4.10x in 2023
- A median DSCR of 5.65x during the notes' term
- A debt shortfall of about \$42 million at legal maturity

Liquidity

We view ENA Norte's liquidity as neutral, given that it benefits from a six-month debt service reserve account of \$6.8 million, a major maintenance reserve account of \$1.25 million, and a capex reserve account of \$1.5 million. The project funded these reserve accounts with the proceeds of the rated issuance and will maintain them for the notes' term.

Additionally, the project benefits from a restricted capital structure in which no dividend payments are allowed until 100% of the notes are paid.

Ratings Score Snapshot

Operations phase (senior debt)

- Asset class operating stability: 3
- Operations phase business assessment: 6
- Preliminary operations phase SACP: a-
- Downside resiliency assessment and downside impact: Modest(-5 notches)
- Median DSCR impact: Neutral

- Debt structure impact: Material dependence on cash flow sweeps (-1 notch)
- Liquidity impact: Neutral
- Refinancing impact: Neutral
- Future value modifier impact: Neutral
- Holistic analysis impact: Neutral
- Structural protection impact: Neutral
- Counterparty assessment impact: Neutral
- Operations phase SACP: bb-

Parent linkage and external influences (senior debt)

- Parent linkage: Delinked
- Project SACP: bb-
- Extraordinary government support: Neutral
- Sovereign rating limits: BBB
- Full credit guarantees: None
- Senior debt issue rating: BB-

Related Criteria

- Criteria | Infrastructure | General: Sector-Specific Project Finance Rating Methodology, Dec. 14, 2022
- Criteria | Infrastructure | General: General Project Finance Rating Methodology, Dec. 14, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Panama Outlook Revised To Stable From Negative On Solid Growth Prospects; 'BBB' Foreign Currency Rating Affirmed, Aug. 11, 2023

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
ENA Norte Trust		
Senior Secured	BB-/Stable	BB-/Watch Neg

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