S&P Global Ratings

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Research Update:

ENA Norte Trust Outlook Revised To Stable From Negative On Satisfactory Operating And Financial Performance

March 28, 2022

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Rating Action Overview

- Our updated base-case projections for the Panamanian toll road, ENA Norte Trust (ENA Norte or the project), assumes traffic in 2022 to reach 90%-92% of 2019 levels, compared with our last projections of 85%.
- Higher traffic levels will raise the project's cash flows available for debt service (CFADS) and debt prepayment, considering ENA Norte's cash flow sweep feature on its notes. Therefore, we now expect ENA Norte to repay its debt by July 2027, prior to its legal maturity in April 2028.
- On March 28, 2022, S&P Global Ratings revised the outlook on our rating on ENA Norte's $600 million notes to stable from negative and affirmed our 'BB+' rating.
- The stable outlook reflects our expectation that traffic should recover to above 90% of 2019 levels this year and to 100% in 2023, allowing the project to fully repay its debt before legal maturity. The outlook also reflects our expectations under our downside-case scenario, the project would surpass a five-year down cycle without using liquidity reserves, but it would use its debt service reserve account (DSRA) in order to fully repay its notes at maturity.

Project Description And Key Credit Factors

ENA Norte has the concession to design, construct, maintain, administer, and operate the Corredor Norte toll road in Panama City. The project currently comprises 33.4 kilometers (km) long Panama-Madden segment, and two branches, Villa Lucre and Zárate (Brisas del Golf), which are 3.3 km and 1.3 km long, respectively. The project has been fully operational since May 2009 based on the concession agreement. 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 July 2027.

Maxipista de Panama S.A. (not rated) provides the operations and maintenance (O&M) activities under a fixed-price contract during the notes' term. We view Maxipista, which also operates ENA Sur and ENA Este corridors, as an experienced player in the toll road business.

ENA Norte's $600 million 4.95% senior secured notes due 2028 ($304 million outstanding in January 2022) 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're excluding principal payments from our debt service coverage ratio (DSCR) calculations. At the same time, we believe that this mechanism overstates the project's metrics. Therefore, we incorporate a negative three-notch adjustment in our rating analysis to reflect that metrics look stronger than 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 working under a fixed-price contract.

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.

Strategic location in northern Panama City with a favorable traffic mix, mostly comprising commuters.

Risks

ENA Norte's revenue depends on traffic performance. Therefore, a sharp dip in traffic volumes 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 project's tolls, which are adjusted by the government on a discretionary basis, remained flat during the past five years, and we expect no changes.

The downside-case scenario limits the rating on the project, given that under hypothetically stressed levels of traffic, O&M expenses, and traffic, the project would use its DSRA in order to repay its debt at maturity, leaving insufficient cushion for the debt repayment at maturity under the downside-case scenario.

Rating Action Rationale

The outlook revision reflects the project's adequate operating and financial performance in 2021, as well as our expectations of a steady recovery in traffic levels in 2022 and reaching pre-pandemic levels in 2023. In 2021, the project paid about $22 million of the debt's outstanding amount, above our expectations of $15 million - $20 million. We now expect ENA Norte could prepay the total outstanding debt by July 2027, three quarters before its legal maturity on April 2028.

The rating affirmation reflects our expectation that ENA Norte will maintain a solid financial performance, posting minimum and average debt service coverage ratios (DSCRs) of about 3.6x and 10x, respectively, which we calculate based on interest payments. In addition, we have kept the project's downside scenario in the 'bbb' category, which continues to limit the rating. Although we consider that ENA Norte can surpass a five-year down cycle scenario without using its liquidity reserves, we don't see enough cushion for a comfortable debt repayment at maturity under our downside-case scenario.

Even though traffic is recovering in line with our expectations, the project's performance has rebounded from the pandemic-related disruption at a slower pace than other toll roads in the region. Therefore, we've revised downward our assessment on ENA Norte's competitive position to fair from satisfactory, which has no impact on the rating. Traffic recovery at ENA Norte in 2021 reached approximately 75% of 2019 levels, which we believe reflected less time sensitiveness from users than we previously expected, given that traffic levels on other toll roads in Chile and those in Mexico in 2021 have reached above 90% of 2019 levels. Nevertheless, ENA Norte relies heavily on commuters, because they represent above 95% of the toll road's traffic, which we continue to view as a credit strength.

Outlook

The stable outlook reflects our expectation that traffic volume should recover to above 90% of 2019 levels this year and to 100% in 2023. This will allow the project to fully repay its debt about three quarters before the debt's legal maturity. The outlook also incorporates the project's performance under our downside-case scenario, in which it would surpass a five-year down cycle without depleting its liquidity reserves, although ENA Norte will still have to use its DSRA to pay its debt at maturity on time.

Downside scenario

We could lower the rating in the next 12 months if we expect a lower repayment of principal in the medium term, which could increase the risk of refinancing. For instance, this could happen if total recovery of traffic is delayed until 2024, rather than occurring in 2023.

Upside scenario

We could raise the rating if we believe that under our downside-base scenario, the project will have a substantial cushion for the total repayment of its outstanding debt on time, before April 2028.

Base Case

Assumptions

- Traffic recovery to 90%-93% of the 2019 level in 2022, and a full recovery in 2023. A traffic increase of about 3% per year starting in 2024.
- Panama's GDP of about 4% in 2022 and afterwards (see " Sovereign Risk Indicators" published Dec. 13, 2021).
- No toll increases, in line with the trend in previous years, given the discretionary rate-adjustment mechanism.
- Annual O&M and minor maintenance costs of $13 million - $14 million starting in 2022.
- Costs to increase in line with Panama's consumer price index (CPI), which we expect to be about 1.5% in 2022 and afterwards, according to our December 13 report, "Sovereign Risk Indicators".
- Major maintenance costs of approximately $10 million in 2022, $5 million in 2023, and $7

million starting in 2024.

Key metrics

A minimum DSCR of 3.6x in January 2023.

An average DSCR of 10x during the notes' term.

Downside Case

Assumptions

- A five-year down cycle scenario with a traffic 6% lower than the base-case growth rate for two consecutive years starting in 2022, followed by a 3% drop between 2024 and 2026.
- O&M costs 10% higher than those in our base-case projections.
- Capital expenditures (capex) 10% higher than those in our base-case projections.

Key metrics

- The project is able to withstand a five-year downside cycle without depleting its liquidity reserves, which is consistent with our assessment of a 'bbb' downside scenario. Once we apply our five-year down cycle scenario, we continue to see limited cushion for the total repayment of its outstanding debt before April 2028. In order to repay fully its outstanding debt by April 2028 in our downside scenario, we expect the project to use its DSRA, which, currently totals about $7.5 million.

Rating Score Snapshot

Operations phase SACP (senior debt)

- Operations phase business assessment: 6
- Preliminary SACP: a-
- Downside impact on preliminary SACP: bbb+ (-1 notch)
- Liquidity: Neutral
- Comparative analysis assessment: Neutral
- Debt structure: Material dependence on cash flow sweeps (-3 notches)
- Adjusted preliminary operations phase SACP: bb+
- Operations counterparty ratings adjustment: Neutral
- Financial counterparty ratings adjustment: Neutral
- Operations phase SACP: bb+

Modifiers (senior debt)

- Parent linkage: De-linked
- Structural protection: Neutral
- Extraordinary government: Neutral
- Sovereign rating limits: BBB
- Full credit guarantees: None
- Senior debt issue rating: BB+

Liquidity

We continue to assess ENA Norte's liquidity as neutral. The project has a six-month DSRA, capex, and major maintenance reserve account of about $7.5 million, $1.5 million, and $1.25 million, respectively. Additionally, the project benefits from having a restricted capital structure in which no dividend payments are allowed until 100% of the notes paid.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- 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
- 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

Ratings Affirmed/Outlook changed	To	From
ENA Norte Trust		
Senior Secured	BB+/Stable	BB+/Negative

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.