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Research Update:

ENA Norte Trust Debt Rating Cut To 'BB-' From 'BB+' And Placed On CreditWatch Negative On Lower-Than-Expected Traffic

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Rating Action Overview

- The Panamanian toll road operator, ENA Norte Trust (ENA Norte or the project), reported a traffic increase of 6% in 2022, significantly lower than the 23% growth originally expected, mainly due to the increasing competition from free alternative roads and other transportation models. We now expect traffic levels to increase 7% in 2023, versus the previous forecast of 9%. Therefore and considering the updated traffic volume baseline and the project's cash flow sweep feature on its notes, we now expect ENA Norte to repay its debt at legal maturity in April 2028, using a portion of its debt service reserve account (DSRA).
- On Feb. 27, 2023, S&P Global Ratings lowered its issue-level rating on ENA Norte's debt to 'BB-' from 'BB+' and placed the rating on CreditWatch with negative implications.
- The CreditWatch negative listing reflects a 50% chance of a further downgrade of one or more notches in the next three months if we were to expect weaker traffic growth in 2023 that could reduce the payment of principal, and consequently, increase the risk of refinancing compared with our current base-case scenario.

Project Description And Key Credit Factors

ENA Norte has the concession to design, construct, maintain, administer, and operate the north corridor's toll road in Panama City. The project currently comprises the 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. 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 April 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/Negative/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 under a fixed-price contract 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 2028 ($273 million outstanding in January 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'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 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.

Risks

- The project's toll rates, which are adjusted by the government on a discretionary basis, remained flat during the past few years, and we expect no further changes.
- ENA Norte's revenue depends on traffic volumes. 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-case scenario limits the rating on the project, given that under hypothetically stressed levels of traffic, O&M expenses, and capital expenditures (capex), the project would be unable to fully repay its debt at maturity, even using the full amount of its DSRA.

Rating Action Rationale

The rating action and CreditWatch listing reflect our view of ENA Norte's weaker resiliency to a stress traffic cycle. In 2022, the project's traffic volume increased about 6% and debt prepayments totaled $31.5 million, considerably below our previous projections of 20%-23% and $37 million - $39 million, respectively. This was mainly due to the increasing competition from free alternative roads (such as the Domingo Diaz Avenue) and other transportation models (such as the Panama Metro's Lines 1 and 2), which has had a deeper-than-expected impact on ENA Norte's traffic volume.

Our updated base-case scenario for ENA Norte assumes traffic in 2023 to grow about 7%, compared with our last projection of 8%-10%. This would push the full recovery to pre-pandemic levels to 2026, three years later than in our previous base-case scenario. Therefore, we now forecast the project would repay the total outstanding debt at legal maturity in April 2028, three quarters later than in our previous base-case forecast. In addition, our updated base-case scenario assumes that ENA Norte will have to use more than $1 million of its DSRA to repay debt on time.

Moreover, the project's exposure to marginal changes in traffic volumes has significantly increased the debt's refinancing risk. Therefore, under hypothetically stressed levels of traffic, O&M expenses, and capex, ENA Norte would be unable to fully repay its debt at legal maturity, even using the full amount of its DSRA. The updated downside shortfall in April 2028 would be about $71 million, versus the previous estimate of $7 million, and as of the date of this report, the project's DSRA totals about $7.2 million. Therefore, to reflect our updated projections and ENA Norte's lower resiliency under a downside scenario, we lowered our debt rating to 'BB-' from 'BB+'.

CreditWatch

The CreditWatch negative listing reflects a 50% chance of a further downgrade of one or more notches in the next three months if we were to expect weaker traffic growth in 2023 (below 6%) that could reduce the payment of principal (below $36 million), and consequently, increase the risk of refinancing compared with our current base-case scenario.

On the other hand, we could revise the outlook to stable in the next three months if traffic volume recovers robustly in the first half of 2023 and we believe that, under our downside-case scenario, the project will have a considerably narrower shortfall for the total repayment of its outstanding debt at maturity.

Base Case

Assumptions

- Traffic growth of 6%-8% in 2023 and 2024, and 5%-7% in 2025. Long-term traffic growth of 4.5% starting in 2026, with an elasticity of 1x with Panama's long-term GDP growth (see "Sovereign Risk Indicators" published on Dec. 12, 2022).
- 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 SG&A) costs to increase in line with Panama's inflation, which we expect to be 3.0% in 2023, 2.0% in 2024, and 1.5% in 2025 and afterwards, according to our most recent "Sovereign Risk Indicators" article.
- Major maintenance costs (capex) of about $10 million in 2023, $7 million in 2024, and $5 million in 2025.

Key metrics

- A minimum DSCR of 3.85x in 2023; and
- A median DSCR of 6.53x 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 3.33x in 2023; and
- A median DSCR of 4.71x during the notes' term.
- A shortfall of about $71 million at legal maturity (April 2028).

Liquidity

We continue to assess ENA Norte's liquidity as neutral. The project has a six-month DSRA, one-month major maintenance reserve account, and a one-month capex reserve account of about $7.2 million, $1.25 million, and $1.5 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.

Rating 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: General Project Finance Rating Methodology, Dec. 14, 2022
- Criteria | Infrastructure | General: Sector-Specific 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

Ratings List

Downgraded; CreditWatch/Outlook Action

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