FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ENA Master Trust; Outlook Stable

Fri 06 Oct, 2023 - 3:07 p. m. ET

Fitch Ratings - Monterrey - 06 Oct 2023: Fitch Ratings has affirmed at 'BBB' the rating on the fixed-rate USD400 million senior secured notes of ENA Master Trust due in 2048. The Rating Outlook is Stable. Fitch has also assessed the Standalone Credit Profile (SCP) of the transaction at 'bbb'. The notes are supported by the cash flow generation of Panama City's Corridor Sur and Corridor Este toll roads.

The rating remains at Stable Outlook despite the recent revision of Panama's Outlook to Negative from Stable as a reflection of the quality of ENA Master Trust's toll road assets as critical for the road network of the capital city of Panama, coupled with the transaction's robust credit metrics.

RATING RATIONALE

ENA Master's rating continues to reflect the risk related to the operation of two toll roads, one with a long track record and another with shorter performance history, in Panama's capital city. Despite the projects' contractual ability to adjust tolls according to inflation, they have not been increased in several years; therefore, Fitch assumes that tolls will remain unchanged over the life of the notes. Debt structure is standard for this type of transactions as it is senior, fully amortizing, with adequate structural features and covenant package. The rating reflects the transaction's nature as a government-owned project financing and is solely driven by the project's SCP.

Fitch's rating case minimum and average debt service coverage ratio (DSCR) is 2.3x and 2.6x, respectively. These metrics are high for the rating, according to the indicative guidance in Fitch's applicable criteria. The international rating one notch above the sovereign is supported by the project's resilience to severe stresses beyond those observed under adverse macroeconomic conditions, and by the existence of robust contractual ring-fencing provisions that limit cash flow transfers to the Government of Panama.

KEY RATING DRIVERS

Moderate Volume Risk [Revenue Risk-Volume: High Midrange]:

The two corridors serve a strong reference market and play an important role in the road network of the capital city of Panama, representing relevant links for commuters and commercial traffic. The assets face competition from free alternatives and other transportation modes. Light vehicles represent the majority of the traffic, with limited exposure to heavy vehicles. While the Sur traffic corridor has a long track record of traffic, the Este corridor has started operations more recently and traffic shows limited history with some volatility. Nonetheless, this is largely mitigated by the fact that Sur corridor's revenues represent roughly 80% of the transaction's revenues.

Fixed Toll Rates [Revenue Risk-Price: Weaker]:

The concessionaire is entitled to annually adjust toll rates at inflationary levels, but toll rates have not been increased by inflation in several years, and are not expected to be updated in the medium term.

Suitable Infrastructure Plan [Infrastructure Development and Renewal: Midrange]:

Sound contractual requirements to fund capital expenditure costs are in place for the two corridors. The concessionaire already has short- and medium-term maintenance plans in place to perform the works required in certain sections of the corridors. The capital investment program is internally funded. The structure includes a 12-month reserve fund for major maintenance.

Standard Debt Structure [Debt Structure: Midrange]:

Debt is senior with fixed interest rate and a fully amortizing profile. There is a 12-month debt service reserve account, adequate distribution trigger and covenant package and restrictions to incur additional debt.

Financial Profile

Financial Summary:

Under Fitch's base case, minimum and average DSCRs are 2.4x (in 2046) and 2.8x, while under its rating case, minimum and average DSCRs are 2.3x (in 2046) and 2.6x, respectively. Such metrics are above of the indicative range for the rating category.

PEER GROUP

ENA Master Trust's closest peer in Latin America is Autopistas del Sol (AdS; B/Stable), a toll road in Costa Rica. Both projects provide important connectivity within their respective areas and are subject to increasing competition from free alternatives. AdS's average DSCR is lower than ENA Master Trust's at 1.2x, which explains the difference in the ratings.

ENA Master Trust is also comparable with Concesionaria Mexiquense, S.A. de C.V. (Conmex; BBB/Stable), which operates a bypass in Mexico City, Mexico. Conmex's metrics are higher than ENA Master Trust's with average DSCR at 3.1x. However, Conmex's rating is capped at one notch above Mexico's sovereign rating (BBB-/Stable) due to the toll road's exposure to the country's economic prospects.

RATING SENSITIVITIES

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

--A negative rating action on Panama's sovereign rating;

--A substantial and sustained deterioration of the project's performance that could largely pressure liquidity levels.

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

--Unlikely, the rating is constrained due to the correlation with the local economy and the government's ownership and control, which increases the propensity for interference on toll tariffs.

CREDIT UPDATE

During 2022, average annual daily traffic (AADT) reached 167,481 vehicles, representing a growth of 14.2% compared to 2022, above the 12.9% expected in Fitch's base case and the 6.2% in Fitch's rating case. Toll revenues reached USD74.3 million and were in line with Fitch base case.

As of August 2023, AADT exhibits a 12.9% growth in comparison to the same period of 2022, slightly higher than both Fitch base case and rating case's expectation of 12% for YE 2023. ENA Este has seen the greater increase with 21.3%, while ENA Sur grew 11.6%. Toll revenues registering USD54.3 million were slightly below Fitch's base case expectations of USD55.4 million due to traffic performance.

Total expenses in 2022 reached USD24.2 million,10.3% lower than in 2021, and were below the USD28.8 million expected in under Fitch's base case, as a result of lower major maintenance expenses. Up to June 2023, total expenses were USD14.8 million, also lower than observed in the same period of 2022 and below Fitch's base case projection of USD17.8 million, due to lower operating expenditures. However, major maintenance expenses have surged significantly in 2Q23 due to delayed major maintenance investments caused by supplier issues.

As a result of toll revenues in line with expectations and lower expenses, in 2022, actual DSCR was 3.3x, while Fitch base case expectations of 3.0x. As of June 2023, actual DSCR was 3.4x, above the agency's base case expectation of 3.1x.

FINANCIAL ANALYSIS

Fitch has adjusted its traffic assumptions to consider the actual traffic performance in 2022.

Fitch base case assumes traffic recoveries in 2023, of 98% and 93% for ENA Este and ENA Sur, respectively, relative to 2019 levels. Both corridors will reach 100% recovery in 2024, followed by a traffic compounded annual growth rate (CAGR) of 2.3% up to 2048 of for ENA Sur and up to 2045 for ENA Este.

Fitch also uses the following assumptions for the base case:

--Toll rates are assumed to remain fixed for the debt term;

--O&M expenses were increased by inflation every year plus 5% stress. Inflation estimates are 1.5% for 2023, 2.0% for 2024, and 1.5% for 2025 and onward;

--Capex is projected at USD9 million and USD11.4 million in 2023 and 2024, according to the concessionaire budget. From 2025 and onward is expected to follow what was stipulated in the initial financial model of ENA Master;

Under this scenario, minimum and average DSCR is 2.4x and 2.8x, respectively.

Under Fitch's rating case, Fitch assumes recovery estimates for 2023 as the same as in the base case, but in 2024 only ENA Este reaches 100% while ENA Sur recovers to 95%. The latter fully recovers in 2025. For the rest of the scenario the agency assumes a traffic CAGR of 2.2% up to 2048 for ENA Sur and of 2.3% up to 2045 for ENA Este. Fitch also assumes an additional 2.5% stress in comparison with the base for O&M expenses. Under this scenario, minimum and average DSCR is 2.3x and 2.6x, respectively

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
ENA Master Trust				
ENA Master Trust/Senior Notes/1 LT	LT	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Rosa Maria Cardiel Vallejo
Associate Director
Primary Rating Analyst
+52 81 4161 7094
rosa.cardiel@fitchratings.com
Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial, Monterrey 64920

Erik Hernandez
Senior Analyst
Secondary Rating Analyst
+52 81 4161 7002
erik.hernandez@fitchratings.com

Astra Castillo
Senior Director
Committee Chairperson
+52 81 4161 7046
astra.castillo@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Transportation Infrastructure Rating Criteria (pub. 16 May 2022) (including rating assumption sensitivity)

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG MTR Model, v1.8.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ENA Master Trust	EU Endorsed, UK Endorsed

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