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Research Update:

ENA Master Trust 'BBB' Debt Rating Affirmed; Outlook Remains Stable

October 26, 2023

Rating Action Overview

- We updated our base-case scenario for Panamanian toll road ENA Master Trust and continue to expect a minimum debt service coverage ratio (DSCR) of about 2.4x.
- Therefore, on Oct. 26, 2023, S&P Global Ratings affirmed its 'BBB' issue-level rating on ENA Master, which continues to be capped by the foreign currency rating on the sovereign.
- The stable outlook on the project mirrors that on Panama and captures our view that we would not rate ENA Master above the sovereign because of the regulated nature of its operations.

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Project Description And Key Credit Factors

ENA Master is a limited purpose entity that owns ENA Sur and ENA Este. ENA Sur operates a 19.8-kilometer (km) urban toll road located in southern Panama City that connects the downtown area with the international airport Aeropuerto Internacional de Tocumen (BBB/Stable). This toll road has been fully operational since 2000. ENA Sur's concession expires in June 2048, one month after ENA Master's notes maturity.

ENA Este operates a 10.2-km toll road located in northern Panama City. This toll road has been fully operational since 2015 and was designed as an extension of ENA Norte Trust (BB-/Stable) to connect the northern corridor to the southern one. ENA Este's concession ends in October 2045.

ENA Master is a subsidiary of Empresa Nacional de Autopistas S.A. (not rated)--created and owned by the government of Panama (BBB/Stable/A-2) to build and operate toll roads in the country. The operator of both corridors is Maxipista de Panama S.A. (not rated), and we expect it will continue to be so, given the administration contract, which expires when each concession ends.

Key strengths

- Favorable traffic mix consisting mostly of commuters, which tend to be more resilient during an economic downturn than cargo traffic.

- Experienced operator with a long track record in the industry.
- Robust liquidity supported by a 12-month debt service reserve account (DSRA).

Key risks

- The project is exposed to traffic volume volatility, which means that a decrease in traffic could hurt the project's revenue. ENA Master faces competition from alternatives, such as free roads and metro lines, that could depress its traffic.
- 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.
- A downgrade of the sovereign could result in a similar action on the notes, since the rating is capped by that on Panama.

Rating Action Rationale

In our view, the project's traffic will continue to follow Panama's robust domestic economic recovery, leading to strong credit metrics, including a minimum and median DSCR of about 2.4x and 2.9x, respectively. We expect Panama's GDP to grow 6.5% in 2023 and 5% annually thereafter (see "Sovereign Risk Indicators," published on Oct. 9, 2023). We now forecast traffic growth of 10%-11% in 2023, 7%-8% in 2024, and 2%-3% annually afterward, reaching pre-pandemic levels by mid-2024, six months later than in our previous base-case scenario. Our estimation is in line with the project's 12% year-over-year increase in traffic in the first nine months of 2023, since we believe that ENA Master will further benefit from the implementation of return-to-office policies and the completion of urban developments in the northeast region of Panama City.

Outlook

The stable outlook on the project mirrors that on Panama and captures our view that the rating on ENA Master continues to be capped by the one on the sovereign. We also expect that the project will maintain solid operating and financial performance in the next 24 months, which should result in a projected minimum DSCR of about 2.4x in 2026 and a median DSCR of about 2.9x during the term of the notes due in May 2048.

Downside scenario

We could lower the rating on ENA Master if we were to take the same action on Panama. We could also downgrade the project if its projected minimum DSCR drops below 2.2x, which could occur because of falling traffic, higher operating costs, or higher maintenance capital expenditure (capex), or a combination of these factors.

Upside scenario

We could revise the outlook to stable or even raise the rating on ENA Master if we were to take the same action on the sovereign. We could revise up the project's stand-alone credit profile (SACP) if the projected minimum DSCR surpasses 2.5x, which could occur if traffic growth exceeds our expectations while costs and capex remain at the current levels.

Base Case

Assumptions

- Traffic growth of 10%-11% in 2023 and 7%-8% in 2024, which incorporates about 1.5x elasticity with Panama's GDP growth. For 2025 and thereafter, we expect traffic to grow by 2%-3%, with 0.5x elasticity with Panama's GDP growth.
- No toll rate increases, in line with history, given the discretionary nature of the rate-adjustment mechanism.
- Minor (operations and maintenance, and selling, general, and administrative) and major maintenance (capex) expenses totaling about $25 million in 2023. Going forward, we assume both expenses will grow in line with Panama's inflation, which we expect to be 2% in 2024 and 1.5% in 2025 and afterward.

Key metrics

- A minimum DSCR of about 2.4x in 2026; and
- A median DSCR of about 2.9x during the notes' term.

Downside Case

Assumptions

We model two downside stress scenarios, one between 2026 and 2030, and another between 2045 and 2048. Our assumptions for the stress scenarios are:

- Traffic reduction of 6% from the base-case growth rate in the first two years, followed by a 3% reduction in the following three years, and
- Minor and major maintenance expenses 10% higher than in our base-case scenario.

Key metrics

- A minimum DSCR of about 1.7x in 2047, and
- A median DSCR of about 2.1x during the notes' term.

Liquidity

We assess ENA Master's liquidity as neutral for the rating, given that it benefits from a 12-month DSRA of $16.4 million, a one-month operation and maintenance reserve account (OMRA) of $7 million, and a 12-month major maintenance reserve account of $5.7 million. The latter could eventually cover additional operations and maintenance costs if necessary, reaching an OMRA of up to 12 months.

In our view, the possibility of retaining cash in a reserve account of at least 12 months of operations mitigates the absence of a forward-looking cash lock-up mechanism. The project funded its reserve accounts with the proceeds of the rated issuance and will maintain them for the notes' term.

Rating Score Snapshot

Senior debt issue rating	**BBB**
Operations phase (senior debt)	
Asset class operating stability:	3
Operations phase business assessment:	8
Preliminary operations phase SACP	bbb+
Downside resiliency assessment and impact:	High (+1 notch)
Median DSCR impact:	Neutral
Debt structure impact:	Neutral
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	a-
Parent linkage and external influences (senior debt)	
Parent linkage:	Delinked
Project SACP:	a-
Extraordinary government support:	Neutral
Sovereign rating limits:	BBB (-2 notches)
Full credit guarantees:	None

DSCR--Debt service coverage ratio. ICR--Issuer credit rating

Operations counterparties

There are no operations counterparties that pose a rating constraint to the project. We view the operator as replaceable because we believe there are several competent alternatives in the region that could take over operations in a short period of time and at a similar cost. Additionally, the project has one month of credit enhancement through a fully funded OMRA to continue operating the asset, if it needs to replace the operator.

Financial counterparties

The project has two bank account providers:

- Banistmo S.A. (BB+/Stable/B), where the project maintains the temporary concentration of funds and local payments, and
- Bank of New York Mellon (AA-/Stable/A-1+), the offshore account that holds all the other accounts (including the reserve accounts).

We don't consider that any of the financial counterparties pose a rating constraint, given that other banks could take their role in a short period of time and at a similar cost.

Rating above the sovereign

The sovereign rating on Panama continues limiting the rating on the project. In our opinion, the debt rating on ENA Master is highly sensitive to the sovereign given that the project operates in the toll road industry, which is susceptible to the domestic economy and is subject to regulatory risk and potential heightened scrutiny and intervention.

In addition, the toll rates have a history of discretionary adjustments approved by the government. Therefore, we believe the government's decisions could significantly affect the project's cash flows, particularly under a sovereign stress event.

Environmental, Social, And Governance

Social factors are a moderately negative consideration in our rating analysis of ENA Master, given its slower-than-expected traffic recovery to pre-pandemic levels, especially compared with other toll roads that we rate in the region that have already fully recovered. The slower traffic recovery indicates a change in traffic behavior around Panama City, where toll roads are more exposed to competition from free roads and the metro and to more flexible return-to-work policies than in other Latin American cities.

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: Ratings Above The Sovereign--Corporate And Government Ratings: 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

Ratings Affirmed	
ENA Master Trust	
Senior Secured	BBB/Stable

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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