

CREDIT OPINION

9 November 2023

Update

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RATINGS

ENA Norte Trust

Domicile	Panama
Long Term Rating	Ba1
Type	Senior Secured - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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ENA Norte Trust

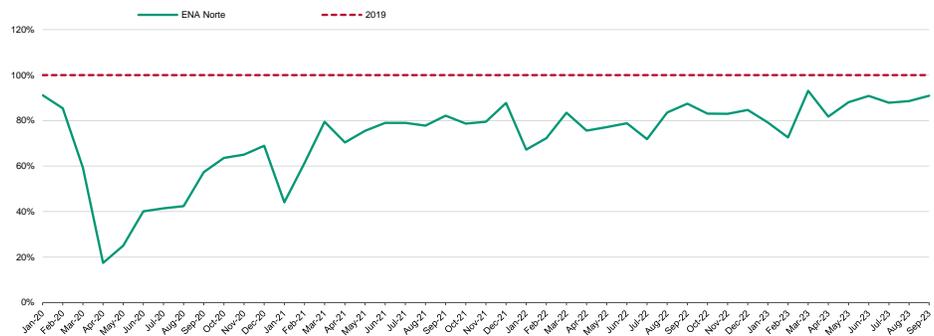
Update following rating downgrade to Ba1; outlook changed to stable

Summary

The credit profile of [ENA Norte Trust](#) (Ba1 stable; "ENA Norte") takes into consideration the application of our Joint Default Analysis (JDA), with the [Government of Panama](#) (Baa3 stable) as the support provider, which results in a one-notch uplift from the company's ba2 Baseline Credit Assessment (BCA).

ENA Norte's BCA of ba2 reflects benefits from the company's strong fundamentals and its position as a key transport asset in a strong service area in Panama City. However, this benefits are compensated by the lack of tariff increases and longer-than-expected traffic recovery to pre-pandemic levels. The assigned BCA also reflects our expectation that the principal payments under the cash sweep mechanism will not be enough to cover the debt at maturity, but we expect the remaining amount to not be significant and to be paid by the sponsor or refinanced before maturity as it happened in the case of [ENA Master Trust](#) (Baa3 stable).

Exhibit 1  
Traffic will remain below 2019 levels until 2027-28  
Traffic as % of 2019 levels



Source: ENA Norte and Moody's Investors Service projections

## Credit strengths

- » Strong market position as a key thoroughfare in Panama City
- » Government ownership and moderate support assumption provide a rating uplift
- » Cash sweep mechanism on principal payments suitable for the volatile traffic profile

## Credit challenges

- » Lack of tariff increases
- » Limited liquidity buffer available to bondholders
- » Slow recovery in traffic to pre-pandemic levels, which increases refinancing risk

## Rating outlook

The stable rating outlook on ENA Norte's rating considers our expectation that the debt balance at maturity will not be significant and will be refinanced. Evidence from this type of situation was when the ENA Master trust was established to refinance the ENA Sur and ENA Este debt.

## Factors that could lead to an upgrade

ENA Norte's rating will have upward pressure if debt service coverage ratio (DSCR) remains above 1.2x on a projected and sustained basis because of stronger traffic performance, tariff increases or cost control.

## Factors that could lead to a downgrade

Downward pressure on ENA Norte's rating could generate from an increase in refinancing risk driven by the delay in the concession extension or material increase in the expected outstanding debt balance at maturity.

## Key indicators

Exhibit 2

### ENA Norte

	2018	2019	2020	2021	2022	2023E	2024E
Debt Service Coverage Ratio [1]	1.2x	1.2x	0.6x	0.8x	0.8x	0.9x	0.8x
Debt to Operating Revenue	4.6x	4.3x	6.9x	4.7x	4.1x	3.2x	2.5x

[1] Debt service annuity refers to the annuity-type payment of interest and principal required to repay outstanding debt over the life of the concession. Debt service annuity is calculated using a standard formula for the present value (PV) of an annuity payment. The life of the concession in this case is considered at the debt maturity since the concession matures in 2028/2029.

Sources: ENA Norte and Moody's Investors Service

## Profile

ENA was formed mainly to acquire and manage companies that have concessions from the Republic of Panama for the construction, conservation, maintenance, administration, financing, and exploitation of toll roads and highways. ENA acquired the Corredor Norte system through a wholly owned subsidiary in October 2012. ENA Norte Trust is a special-purpose financing vehicle that was created for the purpose of this transaction. ENA Norte's shares were transferred to the trust along with the assigned rights and pledges of various accounts.

The Corredor Norte highway spans the northern part of Panama City, the capital of the Republic of Panama, complementing the Corredor Sur highway that runs along the shore in the south. Corredor Norte currently consists of three two-lane segments, totaling 33

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kilometers (km), and one additional segment (Phase IIB) that is currently in operation but not a part of this transaction. ENA Norte is the issuer of debt to finance a portion of the acquisition price of the concession from PYCSA Panama, S.A. (PYCSA).

The road system is owned by the Republic of Panama. However, in 1994, the Republic of Panama granted PYCSA a 30-year concession (which ends in 2029) to study, design, construct, maintain, administer, exploit and finance Corredor Norte. In 2006, PYCSA transferred the rights under its original concession of the Autopista Colon segment (the Madden-Colon portion, while keeping the Panama-Madden portion) to Constructora Norberto Odebrecht S.A., and the rights to a segment stretching between Brisas del Golf and Tocumen to Maxipista de Panama, S.A. Maxipista de Panama, S.A. subsequently transferred its rights to ENA, a Panamanian corporation wholly owned by the Republic of Panama.

## Recent developments

On 02 November 2023 Moody's Investors Service downgraded ENA Norte Trust's senior secured Global Scale rating to Ba1 from Baa3 and BCA to ba2 from ba1. The rating outlook was changed to stable from negative.

## Detailed credit considerations

### Strong market position as a key thoroughfare in Panama City

Corredor Norte is a mature 33-km toll road network that spans the northern part of Panama City, complementing the Corredor Sur highway that runs along the shore in the south. The toll road consists of three segments: a 13.2-km dual two-lane highway that runs from southwest to northeast from Albrook to the Transismica interchange; the 14-km dual two-lane highway Madden segment; and a 6.2-km dual two-lane segment that extends from the Transismica interchange to Brisas del Golf. The segments have been tolled since 1998, 1999 and 2009, respectively.

The viability of the road depends to a great extent on its service area. Corredor Norte is one of the two growing highway systems in Panama City, the country's capital. Panama City is the economic and financial center of the country, and benefits from the banking, insurance, logistics, commerce and tourism sectors. The population of the country is around 4.5 million, with more than one-third of the population living in the Panama City metro area.

The toll road faces some competition from the Panama metro system, the metro bus system and non-tolled alternative routes. Line 1, the first subway line, started service in 2014. In 2019, line 2 started operations and the Domingo Díaz road resumed its regular operations, which resulted in a contraction of 3.9% in ENA Norte's traffic performance compared with that in the previous year. Additionally, social protest in the toll road has contributed to traffic volatility and we expect that this situation will continue in the future under this type of events.

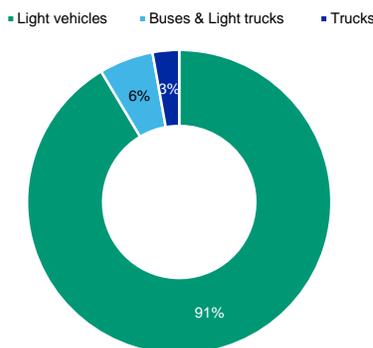
### Slow recovery in traffic to pre-pandemic levels increases refinancing risk

The pandemic led to a sharp drop in traffic and revenue, resulting in a 45% and 43% decline, respectively, in 2020. Despite the increase in traffic in the years after, traffic is still below pre-pandemic levels. As of September 2023, traffic was 14.2% below 2019 levels, despite ENA Norte recording a significant increase in traffic of 10.8% year over year as a result that this year, more activities back to pre-pandemic normality like the resumption of in-person schooling. Under our base case, traffic will recover until 2027 or 2028.

Given the longer-than-expected traffic recovery, we expect the debt amortization under the cash sweep mechanism to be insufficient to cover all debt at maturity in 2028. We estimate that at maturity, \$16 million of the notes will remain outstanding (\$600 million original issuance amount). Thus, ENA Norte will need to repay the outstanding amount with cash from the sponsor or refinance the outstanding balance, as was the case when ENA Master Trust was created to refinance the ENA Sur and ENA Este debt.

The toll road's traffic profile has remained steady despite fluctuations in volume. Around 91.4% of the traffic as of September 2023 comprised cars and motorcycles because the toll road is a principal route for commuters in the Panama City metro area. For the same period there was an increase of almost 11% in traffic from the previous year.

Exhibit 3

**Traffic composition as of September 2023**

Source: ENA Norte

The cost of travel along the full length of the current system is \$3.65, which translates into \$0.19/km, a fairly low level among toll roads in Latin America. As such, revenue growth does not depend on increases in toll rates, which are likely to remain constant through the life of the concession. Instead, revenue will depend mostly on traffic, fueled by economic growth, higher car ownership rates, population growth and increased ridership.

**Inability to increase leverage and use of cash sweep mechanism**

As provided in the debt documents, the concessionaire cannot increase leverage or pursue significant sources of revenue outside this concession. These terms safeguard the enterprise from any opportunistic corporate activity that may subject the bondholders to higher risk.

Additionally, the operating cash shortfalls did not have any impact on debt service payments because the structure only has mandatory interest payments, while the principal is repaid from available cash using a cash sweep mechanism. However, as previously mentioned, we expect the payments under the cash sweep mechanism to be insufficient to cover all debt at maturity in April 2028. As a result, we expect the concession to be extended and the debt to be refinanced.

**Government ownership provides rating uplift**

As part of this transaction, the concession to operate the currently opened segments of Corredor Norte was transferred from PYCSA to ENA Norte, an entity wholly owned by the Panamanian government. A sister company, ENA Sur, already operates Corredor Sur under similar arrangements. The government acquisition of this concession was partly motivated by political pressure to maintain stable and low toll rates. Under the terms of the concession agreement, should the company file for bankruptcy protection or should an event of default occur, all debt becomes immediately due and payable, and bondholders have a right to step in and take over the operation of the road. The agreement prohibits a decrease in toll rates unless the interest-only debt service coverage for the four most recent quarters is at least 1.75x. We project this coverage will reach 4.0x in 2023, although we do not expect a decrease in toll rates under our base case.

The concession agreement also incorporates a concept of contractual equilibrium, where the concessionaire will be compensated for losses arising from extraordinary or unforeseen circumstances, such as a force majeure.

Our analysis considers ENA Norte a government-related issuer (GRI), given ENA's status as a wholly owned entity of the Republic of Panama. The GRI analysis begins with a BCA, which is then adjusted for the expected level of dependence on and support from the federal government. ENA Norte's BCA was determined to be ba2. The level of dependence was very high because of the strong financial and operational ties between the road and the Government of the Republic of Panama. The two are closely linked; revenue for both is derived from the same population base and both face very similar credit risks. The level of expected support is moderate because of the close links between the government and ENA Norte, the importance of the road to the national transport system and the implicit government support for the road through this transaction.

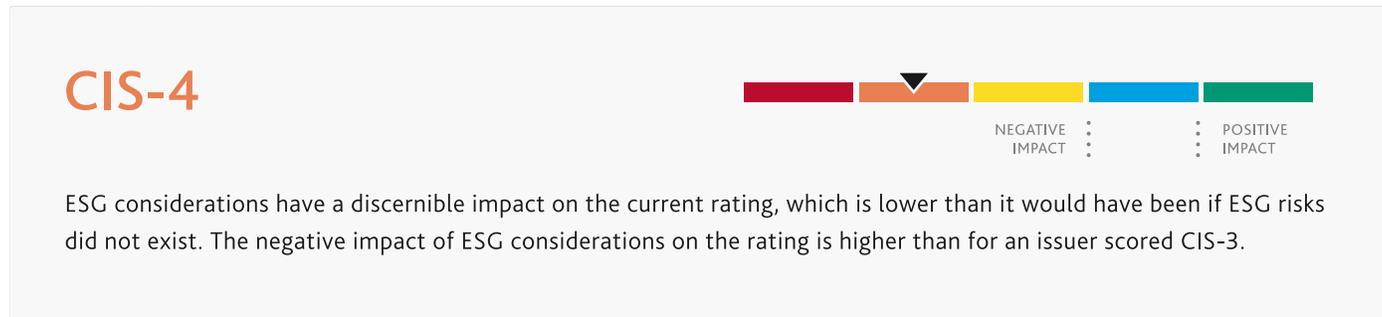
As a result of this GRI analysis, the rating received a one-notch uplift from the BCA to a final outcome of Ba1.

## ESG considerations

### ENA Norte Trust's ESG credit impact score is CIS-4

Exhibit 4

#### ESG credit impact score



Source: Moody's Investors Service

ENA Norte's **CIS-4** indicates the rating is lower than it would have been if ESG risk exposures did not exist. It reflects the lack of tariff increase for several years despite the concession agreement allows so. As a result, revenue has displayed a very similar trend than traffic performance, leading to a lower debt prepayment due to the cash sweep mechanism for principal payments.

Exhibit 5

#### ESG issuer profile scores



Source: Moody's Investors Service

#### Environmental

**E-2.** ENA Norte Trust has low exposure to physical climate risks as heavy rains only modestly reduce traffic when they occur seasonally and have not caused material physical damage to date. Mitigating factors include insurance policies, regulations that allow the recovery of unforeseen costs or losses, and state intervention.

#### Social

**S-4.** ENA Norte Trust is exposed to customer relations risk as reflected in the lack of tariff increases. Despite the concession agreement allows ENA Master Trust to increase tariffs by inflation every year, government concerns over affordability issues have resulted in a lack of tariff increases for more than 15 years.

#### Governance

**G-3.** ENA Norte Trust is exposed to public policy decisions that have led to a lack of tariff increases. However, these risks are offset by its debt structure with project finance credit enhancements. The structure only has mandatory interest payments, while the principal is repaid from available cash using a cash sweep mechanism.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Liquidity analysis

ENA Norte maintains six months of interest payments in its debt service reserve fund per transaction documents, which is relatively weak for these types of structures. Its major maintenance reserve fund of \$1.25 million and capital expenses reserve fund of \$1.5 million offer bondholders an additional liquidity buffer, but remain below average of the peers. The weak liquidity results in a 0.5-notch negative adjustment in the scorecard.

## Methodology and scorecard

The principal methodologies used in this rating were our [Publicly Managed Toll Roads and Parking Facilities](#), published in May 2023, and the [Government-Related Issuers Methodology](#), published on 21 February 2020. The scorecard is a reference tool that can be used to approximate credit profiles. The scorecard indicated outcome of Ba2 is in line with the assigned BCA of ba2.

Exhibit 6

### Rating factors

ENA Norte Trust

Publicly Managed Toll Road and Parking Facilities Industry [1][2]	Current LTM 12/31/2022		Moody's 12-18 Month Forward View As of 10/23/2023 [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Market Position (45%)</b>				
a) Asset Type	A	A	A	A
b) Competitive Position and Environment	Baa	Baa	Baa	Baa
c) Economic Strength and Diversity of Service Area	Baa	Baa	Baa	Baa
<b>Factor 2 : Performance Trends (35%)</b>				
a) Annual Revenue (USD Million)	\$67.2	Baa	\$77.1	Baa
b) Operating Track Record and Revenue Stability	Baa	Baa	Baa	Baa
c) Ability and Willingness to Increase Rates	B	B	B	B
<b>Factor 3 : Leverage and Coverage (20%)</b>				
a) Debt Service Coverage Ratio	0.8x	Caa	0.8x	Caa
b) (Debt + ANPL) to Operating Revenue	4.1x	A	2.5x	Aa
<b>Notching Adjustments:</b>				
a) Debt Service Reserve Fund		-0.5		-0.5
b) Open Flow of Funds		0		0
c) Days Cash on Hand		-1		-1
d) Asset Ownership and Financing Structure		-0.5		-0.5
e) Leverage Outlook		0		0
<b>Rating:</b>				
Scorecard-Indicated Outcome before Notching Adjustments		Baa3		Baa3
Notching Adjustments		-2		-2
a) Scorecard-Indicated Outcome		Ba2		Ba2
b) Actual Rating Assigned		Ba1		
<b>Government-Related Issuer</b>		<b>Factor</b>		
a) Baseline Credit Assessment		ba2		
b) Government Local Currency Rating		Baa3		
c) Default Dependence		Very High		
d) Support		Moderate		
e) Actual Rating Assigned		Ba1		

[1] All quantitative credit metrics incorporate our standard adjustments to the financial statements for non-financial corporations. [2] As of 12/31/2022. [3] This represents our forward view for 2024, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

## Ratings

Exhibit 7

<u>Category</u>	<u>Moody's Rating</u>
<b>ENA NORTE TRUST</b>	
Outlook	Stable
Senior Secured	Ba1

Source: Moody's Investors Service

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