



## RATING ACTION COMMENTARY

# Fitch Affirms ENA Norte's Notes; Outlook Negative

Fri 01 Mar, 2024 - 2:03 PM ET

Fitch Ratings - Monterrey - 01 Mar 2024: Fitch Ratings has affirmed the long-term rating on ENA Norte Trust's (ENA Norte) USD600 million notes at 'BB' with a Negative Rating Outlook and the national long-term rating at 'A+(pan)' with a Stable Outlook.

## RATING RATIONALE

ENA Norte's ratings reflect a strong and mature asset with a long operational track record. The project has the contractual ability to adjust tolls according to inflation. However, given tolls have not been increased since the issuance of the notes, Fitch continues to assume that tolls will remain unchanged over the life of the notes. ENA Norte's debt structure is robust as the totality of the toll revenue is dedicated to cover operational and financial obligations and has allowed for the project's gradual deleveraging.

Under Fitch's Rating Case, minimum Loan Life Coverage Ratio (LLCR) is 0.4x in 2028, which indicates the debt is not fully repaid at maturity. Despite this, the rating is supported by Fitch's expectation that leverage at debt maturity will be very low at below 1x, along with sponsor Empresa Nacional de Autopista's (ENA) strong historical liquidity levels and demonstrated willingness to repay debt. The government's ability to implement credit protection measures to enable the concessionaire to refinance and/or repay its debt. According to Fitch's rating case, the outstanding balance projected at maturity would be USD31 million, which Fitch considers a manageable amount for ENA.

The 'BB' rating of ENA Norte incorporates a two-notch uplift to its Standalone Credit Profile of 'b+'. Although the transaction is government-owned project financing, the uplift is supported by the strong links that exist between the government and ENA Norte, which are demonstrated by the government's significant influence on its key operations through ENA and a history of active involvement in the project.

The Negative Outlook mirrors the Outlook for Panama's sovereign rating due to the project's exposure to the dynamics of the country's economy and the links between ENA Norte and the Panamanian government. The Stable Outlook of the national scale rating of 'A+(pan)' reflects ENA Norte's credit quality relative to other rated issuers and issuances within Panama.

## KEY RATING DRIVERS

Revenue Risk - Volume - Midrange

Limited Volume Risk - Revenue Risk (Volume): Midrange:

The corridor operates in a strong reference market, the city of Panama, with a long track record of traffic, showing moderate volatility, and plays an important connectivity role for commuters and commercial traffic within the city's broader road network. Given the recent infrastructure changes in the city, the assets face competition from free alternatives and other transportation modes.

Revenue Risk - Corridor Volume - Midrange; Revenue Risk - ML Characteristics - Midrange

Revenue Risk - Price - Weaker

Fixed Toll Rates - Revenue Risk (Price): Weaker

Although the concessionaire is entitled to annually adjust toll rates at inflationary levels, toll rates have not been increased by inflation and are not likely to be updated in the medium term. Toll rates are structurally protected with a covenant that prohibits toll rate reductions if debt service coverage ratio (DSCR) does not meet a minimum threshold.

Infrastructure Development & Renewal - Midrange

Suitable Infrastructure Plan - Infrastructure Development and Renewal: Midrange

Sound contractual requirements to fund capital expenditure costs are in place for the corridors. According to the independent engineer, the physical condition of Corridor Norte requires immediate major maintenance. The concessionaire already has short- and medium-term maintenance plans in place to perform the work required in certain sections of the corridors. The capital investment program is internally funded.

Debt Structure - 1 - Stronger

## Conservative Debt Structure - Debt Structure: Stronger

ENA Norte Trust's debt structure has fixed interest rate, is flow zero and has a six-month debt service reserve account for interest payments.

### Financial Profile

Under Fitch's rating case, ENA Norte's minimum LLCR is 0.4x and is very weak according to Fitch's applicable criteria, and debt is not fully repaid at its maturity in 2028 (USD31 million are estimated to remain outstanding). However, the SCP is supported by Fitch's view that the concessionaire could be able to pay or refinance remaining debt balance with the support of sponsor ENA.

### PEER GROUP

ENA Norte is comparable with Autopistas del Sol (AdS; 'B'/Positive). Both projects provide critical connectivity within their respective areas and are subject to increasing competition from free alternatives, but Fitch assesses Price Risk as Weaker for ENA Norte and as Midrange for AdS. AdS's average DSCR is higher at 1.2x when compared versus the 0.4x coverage metric of ENA Norte, whose ratings are supported by the government's ability to implement credit protection measures to enable the concessionaire to refinance and/or repay its debt.

### RATING SENSITIVITIES

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

--Traffic performance materially below than Fitch's rating case projection of 145,069 Average Annualized Daily Traffic (AADT) for 2024;

--If government delays taking timely actions to either refinance the debt or create conditions for the debt repayment;

--A multi-notch downgrade of Panama's sovereign rating.

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

--Unlikely, given the increasingly pressing refinancing needs that ENA Norte faces.

### CREDIT UPDATE

In 2023, AADT reached 139,146 vehicles representing 84% of 2019 AADT and below our base case and rating case expectation of an 87% and 86% performance, respectively. Revenues in 2023 totaled USD71.5 million, also below our expectations of USD74 million and USD73 million in our Base case and Rating case, respectively. The traffic and revenue mix have remained steady, with a proportional growth from heavy vehicles as we have seen in other assets in the region.

According to the issuer, this slower-than-expected traffic and revenue recovery was caused by a 30-day period between October and November 2023 when a mining strike affected traffic units and also by an extended return-to-office transition by commuters.

Despite traffic underperforming Fitch's cases, cashflow available after debt service (CFADS) in 2023 was very close to Fitch's projections mainly due to Operational and other Expenses that were 9% and 10% below projected levels, respectively, as those items were executed in line with management's budget. Debt prepayments amounted USD38 million, in line with Fitch's Base Case.

As of December 2023, the trust maintains a debt service reserve account (DSRA) equivalent to two quarterly interest payments of USD6.0 million.

## **FINANCIAL ANALYSIS**

Fitch's base case assumes a traffic growth rate of 5.6%, 10.6% and 4.8% in 2024, 2025 and 2026 respectively, followed by a CAGR of 2.5%. Toll rates are assumed to remain fixed for the term of the debt, as historically observed. Opex and major maintenance assume the budget provided by the issuer plus a 5% stress. Inflation is projected according to Fitch's inflation assumptions (2.0% in 2024 and 2025, 1.5% onwards). Under this scenario, minimum LLCR is 0.7x (in 2028) with a remaining balance of around 1.5% of the original debt amount or USD9.2million.

Fitch's rating case assumes a traffic growth rate of 4.3%, 6.4% and 3.4% in 2024, 2025 and 2026 respectively, followed by a CAGR of 2.0%. Toll rates are assumed to remain fixed for the term of the debt, as historically observed. Opex and major maintenance assume the budget provided by the issuer plus a 7.5% stress. Inflation is projected according to Fitch's inflation assumptions (2.0% in 2024 and 2025, 1.5% onwards).

Under this scenario, LLCR is 0.4x and debt is not paid at maturity (April 2028), with a remaining balance of around 5% of the original debt amount or USD31 million.

## SECURITY

The Panama-Madden Segment (corridor Norte) is a 13.5-kilometer (8.4-mile) toll road that intersects Phase I on the eastern end and runs northwest, connecting to the Interstate Colon Highway. ENA Norte operates the toll road concession of Corridor Norte and has no other significant commercial activities. ENA Norte is a subsidiary of ENA. ENA is an entity wholly owned by the government of Panama, with the purpose of acquiring companies that have been granted concessions for the construction, maintenance and operation of toll roads.

## 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 Norte Trust		
ENA Norte Trust/Toll Revenues - First Lien/1 LT	LT	BB Rating Outlook Negative
	Affirmed	BB Rating Outlook Negative

ENA Norte Trust/Toll Revenues - First Lien/1 Natl LT	Natl LT	A+(pan) Rating Outlook Stable	A+ (pan) Rating Outlook Stable
	Affirmed		

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[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Erik Hernandez

Senior Analyst

Primary Rating Analyst

+52 81 4161 7002

erik.hernandez@fitchratings.com

Fitch Mexico S.A. de C.V.

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

### Pablo Coloma

Director

Secondary Rating Analyst

+56 2 3321 2926

pablo.coloma@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](http://www.fitchratings.com)

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## **APPLICABLE CRITERIA**

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

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

[Metodología de Calificación para Infraestructura y Financiamiento de Proyectos \(pub. 14 Aug 2023\)](#)

[Transportation Infrastructure Rating Criteria \(pub. 18 Dec 2023\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificación de Infraestructura de Transporte \(pub. 25 Jan 2024\)](#)

## **APPLICABLE MODELS**

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

Third-party Model ([1](#))

## **ADDITIONAL DISCLOSURES**

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ENA Norte Trust

EU Endorsed, UK Endorsed

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