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Research Update:

ENA Norte Trust Debt Rating Lowered To 'CCC+' On Increasing Refinancing Risk; Outlook Stable

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Rating Action Overview

- ENA Norte Trust's traffic levels have underperformed relative to our expectations in the past six years, due to the COVID-19 pandemic, increasing competition, lower GDP growth, and, more recently, protests in Panama City.
- We revised down our base-case traffic growth assumptions for the coming four years, and we forecast cash flow available for debt service and existing liquidity reserves will be insufficient to pay down all debt on the April 25, 2028, maturity date, exposing the project to refinancing risk. We estimate a gross shortfall of $25 million-$30 million.
- Therefore, on March 27, 2024, S&P Global Ratings lowered its issue rating on ENA Norte to 'CCC+' from 'BB-'.
- The stable outlook reflects our expectation that the project will generate enough cash flow in the coming 12 months to cover debt service, which consists of only interest payments.

Project Description And Key Credit Factors

ENA Norte has the concession to design, construct, maintain, administer, and operate the toll road of northern Panama City. The project currently includes the 33.4-kilometer (km) Panama-Madden segment and two branches, Villa Lucre and Zarate (Brisas del Golf), which are 3.3 km and 1.3 km, respectively. ENA Norte has been fully operational since May 2009, and the right to administer the asset will expire in June 2029.

The project 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 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 April 2028 ($235 million outstanding as of December 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 exclude principal payments from our debt service coverage ratio (DSCR) calculations. At the same time, we believe this mechanism overstates the project's metrics.

Rating Action Rationale

We revised down our base-case traffic growth expectations for ENA Norte. In 2023, the project's traffic increased 6.2% and debt prepayments totaled $38.1 million, below our previous projections of 9%-11% and $44 million-$45 million, respectively. This mainly stemmed from the temporary closures of the north corridor in October and November 2023 due to unprecedented public protests in Panama City against a copper mining project. That situation and weaker traffic performance in the past six years, due to the COVID-19 pandemic, lower Panamanian GDP growth, and increasing competition from alternative routes and the metro, resulted in a higher stock of debt as of December 2023 than we originally forecast, given that under the cash flow sweep mechanism, less debt was repaid.

We now anticipate a net shortfall between cash flow generated, liquidity reserves, and obligations of about $7.5 million, which poses increasing risks for the project. Incorporating the outstanding principal amount as of December 2023, our latest GDP growth forecast for Panama, and a correlation factor between GDP growth and traffic growth of 1x in 2024 and 0.5x afterward, we now expect lower principal payments until April 2028. The shortfall introduces refinancing risk that we had not envisioned originally. The project structure considers the existence of a six-month debt service reserve account of $6.3 million, a major maintenance reserve account of $1.25 million, a capital expenditure reserve account of $1.5 million, and accessible accounts totaling $11.9 million, which can be used to reduce the amount of debt at maturity, decreasing the amount to refinance.

Outlook

The stable outlook reflects our expectation that traffic volume will increase 4%-5% this year, in line with Panama's GDP growth. This will allow ENA Norte to generate enough cash flow to cover debt service in the next 12 months.

Downside scenario

We could lower the rating on ENA Norte if we perceive higher risks of refinancing, which could occur if traffic performance is weaker than anticipated, resulting in a larger debt shortfall expected at maturity, or if we perceive a higher risk of restructuring.

Upside scenario

We could raise the rating if we perceive lower risks of refinancing, which could occur if traffic increases above our expectations and we therefore anticipate a full repayment of the amount outstanding at maturity.

Base Case

Assumptions

- Panama's GDP to increase 4.4% annually from 2024 onward, with 1x elasticity between GDP growth and ENA Norte's traffic growth this year; afterward, traffic growth to slow to an annual rate of 2.0%-2.5%, with about 0.5x elasticity with Panama's GDP growth.
- 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 selling, general, and administrative) and major maintenance (capital expenditure) expenses of about 30% of revenue, increasing 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 4.16x (in July 2024) that only considers interest payments.
- A median DSCR of 6.76x during the notes' term that only considers interest payments.
- A debt shortfall at maturity of $28.4 million.

Downside Case

Assumptions

- Traffic reduction of 6% from the base-case growth rate in 2024 and 2025, followed by a 3% reduction in 2026, 2027, and 2028.
- Minor and major maintenance expenses 10% higher than in our base-case scenario.

Key metrics

- A minimum DSCR of 3.81x (in October 2024) that only considers interest payments.
- A median DSCR of 5.09x during the notes' term that only considers interest payments.
- A debt shortfall at maturity of $77.8 million.

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: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Panama Outlook Revised To Negative From Stable On Potential Risks To Investor Confidence And Economic Growth, Nov. 7, 2023

Ratings List

Downgraded

	To	From
ENA Norte Trust		
Senior Secured	CCC+/Stable	BB-/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.