

CREDIT OPINION

22 October 2024

Update

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RATINGS

ENA Norte Trust

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

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

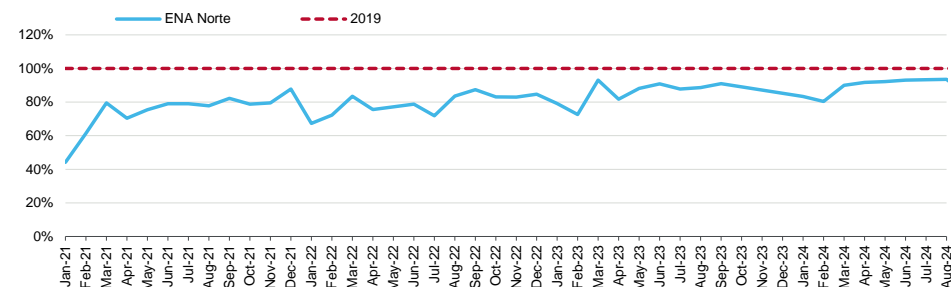
Update following outlook changed to negative

Summary

The credit profile of [ENA Norte Trust](#) (Ba1 negative, 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 the company's strong fundamentals and its position as a key transport asset in a strong service area in Panama City. However, these benefits are offset by the absence of tariff increases, which could be adjusted annually for inflation but have remained flat because of government concerns over customer affordability, and a 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 significantly large. In the absence of internal cash generation, we expect the remaining debt balance to be paid by the sponsor or refinanced before maturity, as in the case of [ENA Master Trust](#) (Baa3 stable), a sister company.

Exhibit 1
Traffic yet to recover to 2019 levels
Traffic as a percentage of 2019 levels



Source: ENA Norte

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

ENA Norte's negative outlook reflects the increasing debt outstanding at maturity, and the growing refinancing risks within the existing concession terms.

Factors that could lead to an upgrade

Because of the negative outlook, a rating upgrade is unlikely at this time. The outlook could stabilize if we have more visibility into the refinancing strategy or the concession is extended with attractive terms and conditions. ENA Norte's rating will face upward pressure if its debt service coverage ratio 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 would generate from an increase in refinancing risk driven by a prolonged delay in the concession extension or significant increase in the expected outstanding debt balance at maturity.

Key indicators

Exhibit 2

ENA Norte Trust

	2019	2020	2021	2022	2023	2024F	2025F
Debt Service Coverage Ratio*	1.2x	0.6x	0.8x	0.8x	0.8x	0.8x	0.9x
Debt to Operating Revenue	4.3x	6.9x	4.7x	4.1x	3.3x	2.6x	1.8x

*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 of an annuity payment. The life of the debt, for the purpose of this calculation, considers the date when the concession expires (April 2028), instead of the actual debt due date.

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: ENA Norte, Moody's Ratings forecasts and Moody's Ratings

Profile

Empresa Nacional de Autopistas S.A. (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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

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 consists of three two-lane segments, totaling 33 kilometers (km), and one additional segment (Phase IIB) that is 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.

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 from the year-earlier level. Additionally, social protests on the toll road have led to traffic volatility, exposing the assets to political and social risks.

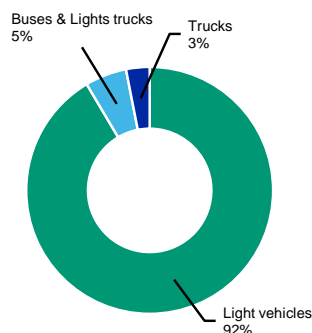
Slow recovery in traffic to pre-pandemic levels increases refinancing risk

The pandemic led to a sharp drop in traffic and revenue, resulting in declines of 45% and 43%, respectively, in 2020. Although traffic has gradually increased in the years following the pandemic, it has not yet returned to the levels seen before the pandemic. As of September 2024, traffic remained 10.9% below 2019 levels, despite a 5.16% increase in ENA Norte's traffic. This increase was driven by the recovery of pre-pandemic activities, such as in-person schooling and a gradual shift away from remote work. Under our base case, traffic will not fully recover until late 2027 or early 2028.

Because of 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, \$25 million of the notes will remain outstanding (\$600 million original issuance amount). Thus, ENA Norte will either need to use cash from the sponsor or refinance the balance to repay the outstanding amount, similar to when ENA Master Trust was created to refinance the debt of ENA Sur and ENA Este. ENA Norte has requested a concession extension of an additional 30 years, which, if granted, could reduce its exposure to refinancing risk. However, the terms and conditions remain uncertain at this point.

The toll road's traffic profile has remained steady despite fluctuations in volume. Around 92% of the traffic as of August 2024 comprised cars and motorcycles because the toll road is a principal route for commuters in the Panama City metro area.

Exhibit 3

Traffic composition as of August 2024

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. Therefore, 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. We estimate the company would need a consistent 7% annual increase in traffic to fully amortize the notes with internal cash generation, nonetheless our baseline projection considers of about 4% traffic growth in 2025 and 2% onwards

Inability to increase leverage and use of cash sweep mechanism

According to 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, so far, 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, increasing the reliance on a concession extension or external sources of cash to address the remaining debt at maturity.

Government ownership provides rating uplift

ENA Norte, an entity wholly owned by the Panamanian government has the concession to operate the currently opened segments of Corredor Norte. A sister company, ENA Sur, already operates Corredor Sur under similar arrangements. The government acquisition of this concession was partly motivated by a political will to control toll rates and maintain costs accessible for end-users. 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 4.4x in 2024, and 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) because of ENA's status as a wholly owned entity of the Republic of Panama. The GRI analysis begins with a BCA, which is a measure of the company stand alone credit quality. Then the rating is adjusted for our expectations on 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 corredor Norte 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 despite the close links between the government and ENA Norte, resulting from the government control and the importance of the road to the national

transport system, there is no explicit government support through guarantees, comfort letters or a legal status that would lead to view of a stronger support.

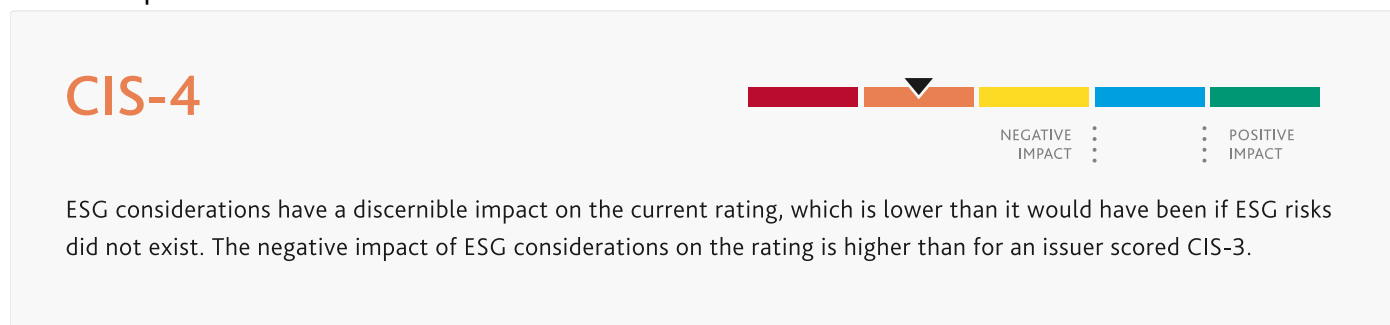
As a result of this GRI analysis, the rating received a one-notch uplift from the BCA to a final outcome of Ba1

ESG considerations

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

Exhibit 4

ESG credit impact score



Source: Moody's Ratings

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 Ratings

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-4. 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 Moodys.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 the average for peers. The weak liquidity results in a 0.5-notch negative adjustment in the scorecard.

Methodology and scorecard

The principal methodologies used in rating ENA Norte were our [Publicly Managed Toll Roads and Parking Facilities](#) and the [Government-Related Issuers Methodology](#). The scorecard is a reference tool that can be used to approximate credit profiles. The scorecard-indicated outcome of Ba3 is one notch below the assigned BCA of ba2, which reflects the negative pressure on the rating.

Exhibit 6

Rating factors

ENA Norte Trust

Publicly Managed Toll Roads and Parking Facilities		Current FY Dec-23		Moody's 12-18 month forward view	
Factor	Subfactor	Score	Metric	Score	Metric
1. Market Position	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
2. Performance Trends	a) Annual Revenue (\$ millions)	71.4	Baa	78.8	Baa
	b) Operating Track Record and Revenue Stability	Ba	Ba	Ba	Ba
	c) Ability and Willingness to Increase Rates	Caa	Caa	Caa	Caa
3. Financial Metrics	a) Debt Service Coverage Ratio	0.8x	Caa	0.8x	Caa
	b) (Debt + ANPL) to Operating Revenue	3.3x	Aa	1.9x	Aaa
Notching considerations			Notch		Notch
	1 - Debt Service Reserve Fund		-0.5		-0.5
	2 - Open Flow of Funds		0		0
	3 - Days Cash on Hand		-1		-1
	4 - Asset Ownership and Financing Structure		-0.5		-0.5
	5 - Leverage Outlook		0		0
Scorecard-Indicated Outcome before Notching Adjustments			Ba1	Ba1	
Notching Adjustments			-2	-2	
a) Scorecard-Indicated Outcome			Ba3	Ba3	
b) Actual Rating Assigned			Ba1		
Government-Related Issuer			Factor		
a) Baseline Credit Assessment			ba2		
b) Government Local Currency Rating			Baa3		
c) Default Dependence			Very High		
d) Support			Moderate		
e) Actual Rating Assigned			Ba1		

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Ratings and Moody's Ratings forecasts

Ratings

Exhibit 7

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

Source: Moody's Ratings

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