

# Three Panamanian Infrastructure Entities Downgraded Following Same Action On Sovereign; Outlook Stable

November 27, 2024

- On Nov. 26, 2024, S&P Global Ratings lowered its long-term sovereign credit ratings on Panama to 'BBB-' from 'BBB' and its short-term sovereign credit ratings to 'A-3' from 'A-2'. The downgrade reflects the sovereign's weaker flexibility that increases the vulnerability to economic and fiscal challenges ahead.
- Consequently, on Nov. 27, 2024, we lowered our issuer credit and debt ratings on Autoridad del Canal de Panama (ACP) to 'BBB+' from 'A-'. At the same time, we lowered our debt ratings on ENA Master Trust and Aeropuerto Internacional de Tocumen S.A. (Tocumen) to 'BBB-' from 'BBB'.
- The stable outlook on these entities mirrors that on the sovereign, which reflects our expectation that Panama's new government will gradually achieve fiscal consolidation, while the economy continues to grow at a rate faster than those of its peers.

MEXICO CITY (S&P Global Ratings) Nov. 27, 2024--S&P Global Ratings took the rating actions on ACP, ENA Master, and Tocumen following the same action it took on Panama. The downgrade of the sovereign reflects a weakening in its fiscal flexibility and performance due to a higher interest burden that has increased Panama's vulnerability to adverse economic conditions.

The ratings incorporate Panama's stable democracy and generally predictable economic policies that, paired with its strategic location, is likely to support above-average GDP growth. The ratings also reflect a weak external profile and the lack of monetary flexibility. Panama lacks a central bank or a formal lender of last resort, which is a constraint on the rating.

The downgrade of ACP reflects our view that it's the most prominent government-related entity in Panama and is internationally important for economic and strategic reasons. We will continue to rate it at the maximum number of notches above the sovereign foreign currency rating. This is due to ACP's intrinsic credit factors, sensitivity to country risk, and liquidity cushion under the sovereign stress tests that we run for an entity with a higher rating than on the sovereign. Therefore, while all other factors remain unchanged, a potential sovereign rating action would cause the same action on ACP. Considering ACP's stand-alone credit profile (SACP) of 'aa', we cap our ratings on it at two notches above the foreign currency rating on the sovereign.

The rating action on ENA Master reflects its high exposure to the sovereign, given the toll road industry is sensitive to the domestic economy and subject to regulatory risk from potential heightened scrutiny and intervention. In fact, toll rates have a history of discretionary adjustments approved by the government. Therefore, we believe the government's decisions could significantly

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affect ENA Master's cash flow, particularly in a sovereign stress event. As a result, considering ENA Master's SACP of 'a-', we cap our debt rating on it at the level of the sovereign.

The downgrade of Tocumen reflects its very strong link with the government due to its critical role as Panama's largest international airport. This includes the government's permanent involvement in supervision, management, and strategic decisions, via strong influence on its board of directors. Therefore, if the sovereign's credit quality were to change, the rating on Tocumen will follow an identical trend.

## **Outlook**

### **ACP**

The stable outlook on ACP mirrors that on Panama. It also reflects our view that the Canal will continue to be rated at the maximum number of notches above the sovereign foreign currency rating due to ACP's intrinsic credit factors, sensitivity to country risk, and liquidity cushion under the sovereign stress tests that we run for an entity that we rate above the sovereign.

**Downside scenario.** We could revise the outlook on ACP to negative if we were to take the same action on Panama. Although unlikely, a downgrade could also occur if ACP's leverage were to jump because of shrinking transit volumes, eroding EBITDA, or if the company undertakes a more aggressive dividend policy that would reduce the buffer in our stress scenario, which is currently above 1.5x. Finally, if we perceive a higher risk of intervention from the Panamanian government--as a result of changes in the Canal's bylaws or the country's constitution (such as the requirement of tax payments, higher mandatory dividends, or any restriction that we view as a detriment to the government-related entity's flexibility), we could cap our ratings on APC at the sovereign level.

**Upside scenario.** We could revise the outlook on ACP to positive if we were to do the same on the sovereign.

### **ENA Master**

The stable outlook on ENA Master mirrors that on Panama and captures our view that ENA Master can't be rated above the sovereign because of the regulated nature of its operations. However, we expect ENA Master to maintain robust operating and financial performance in the next 24 months, with traffic volume increasing 2%-3% annually. This will result in debt service coverage ratios (DSCRs) of about 3.5x in 2025 and 2.4x in 2026.

**Downside scenario.** We could revise the outlook on ENA Master to negative if we were to take the same action on Panama. In addition, we could revise ENA Master's SACP downward if its minimum DSCR falls below 2.2x, which could stem from falling traffic volume, higher operating costs, or a combination of these factors.

**Upside scenario.** We could revise the outlook on ENA Master to positive if we were to do the same on the sovereign. Moreover, an upward revision of ENA Master's SACP would require a projected minimum DSCR above 3x, which we consider unlikely at this moment.

## Tocumen

The stable outlook on our rating on Tocumen's debt mirrors that on Panama. The stable outlook also reflects our expectation of stable air traffic volume in the medium and long term, with about 19 million and 20 million passengers expected in 2024 and 2025, respectively, resulting in DSCRs of 1.34x in 2024 and 1.46x in 2025.

**Downside scenario.** We could revise the outlook on Tocumen to negative if we were to take the same action on Panama. In addition, we could revise Tocumen's SACP downward if its minimum DSCR falls to 1.2x or below, which could stem from lower traffic volume.

**Upside scenario.** We could revise the outlook on Tocumen to positive if we were to do the same on the sovereign. Moreover, an upward revision of Tocumen's SACP could occur if its minimum DSCR rises close to 1.3x amid a rebound in traffic levels.

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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 | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

## Related Research

- Panama Ratings Lowered To 'BBB-/A-3' On Higher Interest Burden; Outlook Stable, Nov. 26, 2024

## Ratings List

### Downgraded

	To	From
<b>Aeropuerto Internacional de Tocumen S.A.</b>		
Senior Secured	BBB-/Stable	BBB/Negative

### Downgraded; CreditWatch/Outlook Action

	To	From
<b>Autoridad del Canal de Panama</b>		
Issuer Credit Rating	BBB+/Stable/--	A-/Negative/--
Senior Unsecured	BBB+	A-

### Downgraded

	To	From
<b>ENA Master Trust</b>		
Senior Secured	BBB-/Stable	BBB/Negative

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](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://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](http://www.spglobal.com/ratings).

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