

Research Update:

# ENA Norte Trust 'BB+' Issue Rating Affirmed And Removed From CreditWatch Negative; Outlook Negative

August 18, 2020

## Rating Action Overview

- We updated our projections for Panamanian toll road ENA Norte Trust (ENA Norte) to incorporate our expectation of a slower-than-expected traffic recovery during the second half of the year, due to an extension of the lockdown. We now project a traffic drop of about 45% in 2020, versus our previous expectation of 40%, which should lead to a minimum debt service coverage ratio (DSCR) on a rolling twelve month basis of 1.40x (down from the 1.60x we forecasted in May).
- While traffic levels were down about 70% year-over-year in April and May, each successive month has shown slight improvement, with July down about 60%. Moreover, we believe the project will be able to postpone in the second semester some capital expenditures and other minor expenses due to the current recession and the inability to conduct major maintenance. As such, we believe ENA Norte will gain some financial flexibility.
- On Aug. 18, 2020, S&P Global Ratings affirmed its 'BB+' issue-level rating on the Panamanian toll road operator's \$600 million notes, and removed them from CreditWatch with negative implications.
- The outlook is now negative and reflects a one-in-three chance of a downgrade in the six months if financial metrics worsen further, leading to a minimum DSCR below 1.25x in our base-case scenario. This could happen if we perceive a harsher traffic drop in the following months amid a sluggish traffic recovery.

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## Rating Action Rationale

**Despite a better performance than what we anticipated in the past four months, we believe ENA Norte's recovery to 2019 traffic levels will take longer due to the postponement of the relaxation of the lockdowns.** Traffic levels have remained slightly better than expected since May--on average about 65% lower than in 2019--while we previously projected a traffic drop of up

to 80%. However, and due to a new wave of coronavirus infections, the government decided to postpone part of the implementation of stage III of the de-confinement plan, which includes relaxing the lockdown of additional sectors. Those sectors finally resumed operations on Aug. 17, 2020, while we previously expected them to start operating at beginning of July. Moreover, we now expect the following stages (IV to VI) to also be postponed. Thus, we now expect traffic levels in 2020 to recover more slowly than what we forecasted back in May, and a yearly drop of close to 45%, rather than our previous 40%, leading to annual revenues this year of \$45 million-\$50 million, versus the previous \$50 million-\$55 million.

**In this context, we believe the project will be able to postpone short-term major maintenance investments, which should give extra flexibility to cash flows.** In the past four months, ENA Norte demonstrated more flexibility than what we previously anticipated to manage its cost structure, particularly operating expenses, which in the first half of the year decreased about \$700,000 mainly due to lower billing costs of Maxipistas (the operator).

In our updated base case, we included cost savings of about \$1 million, which remains aligned to management's expectations. Still, these reductions won't fully offset the lower revenues for 2020, leading to a minimum and average DSCR of 1.40x and 9.00x, respectively, while we previously forecasted a minimum and average DSCR on a rolling twelve month basis of 1.60x and 9.00x, respectively.

The project was able to pay the quarterly debt service due in July 2020 in full with cash proceeds even when traffic levels reached historical lows, with an average of 1.5 million vehicles on a monthly basis. More importantly, we don't forecast ENA Norte to use reserve accounts in the near future, which we view as a credit positive under this context, particularly compared to other peers in the same industry that will have to use those.

**Environmental, social, and governance (ESG) factors relevant to the rating action:**

- Health and safety

## **Outlook**

The negative outlook reflects a one-in-three chance of a downgrade in the next six months if financial metrics continue worsening, leading to a minimum DSCR below 1.25x in our base case scenario. This could happen if we envision a harsher traffic drop within the following months amid a sluggish traffic recovery, leading to an annual traffic decrease above 50%.

## **Upside scenario**

We could assign a stable outlook or even raise the rating in the following six months if traffic starts to recover in the third quarter of the year, reaching over 3 million vehicles on a monthly basis (down 30% from the 2019 level in the same period), resulting in an annual DSCR ratio above 1.60x.

## **Project Description**

ENA Norte has the concession to design, construct, maintain, administer, and operate the Corredor Norte toll road in Panama City. The project currently comprises 33.4 kilometers (km), named the Panama-Madden segment, and two branches, Villa Lucre and Zárata (Brisas del Golf), which are 3.3 km and 1.3 km long, respectively. The project started operating in 1999 and based

on the concession agreement, the right to administer the asset will expire on February 2028, or on the date on which the rated notes will be fully paid, which our base-case scenario assumes will also occur at the beginning of 2028.

Maxipista de Panama S.A. (not rated) provides the operations and maintenance (O&M) activities under a fixed-price contract of about \$9 million during the notes' life. We view Maxipista as an experienced player in the toll road business that also operates ENA Sur's toll roads.

ENA Norte's \$600 million 4.95% senior secured notes due 2028 (\$337 million outstanding in May 2020) 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 outstanding principal amount of the notes. As such, we're excluding principal payments in our DSCR calculations. At the same time, we believe that this mechanism overstates the project's metrics, so we adjust the notes' rating by three notches.

## **Base Case**

### **Assumptions**

- Traffic decrease of about 45% for 2020 from 2019, with a recovery to 56 million vehicles in 2021 (93% of the 2019 level) and 60 million in 2022 (100% of 2019 level). Starting in 2023, we expect traffic to increase about 3%, slightly lower than Panama's GDP growth, until the end of the notes' term.
- No rate increases, in line with the trend in previous years, given the discretionary rate adjustment mechanism.
- Annual O&M and minor maintenance costs of approximately \$12.6 million in 2020.
- Major maintenance costs of \$7.4 million in 2020.

### **Key metrics**

- A minimum DSCR of approximately 1.40x in January 2021; and
- An average DSCR of about 9.00x.

## **Downside Case**

### **Assumptions**

- A traffic drop of 50% for 2020, and a slower recovery for 2021, with the total amount of vehicles in 2021 at about 88% of 2019 levels. The rest of our expectations are aligned to the base-case scenario.
- O&M and capex costs up 10% over our base-case assumptions and a 100 basis point decrease in GDP growth rate.

## **Key metrics**

Under this downside scenario, we expect the project will use about \$2 million of the debt service reserve account (DSRA) to cover the projected shortfall in October 2020. As of August 2020, the DSRA accounted for about \$8.3 million. Despite our expectation that ENA Norte would be able to pay the shortfalls before the following interest payment, we still believe that a weaker traffic performance at this stage might significantly deteriorate ENA Norte's liquidity reserves in the very short-term.

## **Ratings Score Snapshot**

Operations phase SACP (Senior debt)

- Operations phase business assessment (OPBA): 4 (1=best to 12=worst)
- Preliminary SACP: a-
- Downside impact on preliminary SACP: bbb+ (no impact)
- Liquidity: Neutral (no impact)
- Comparative analysis assessment: Neutral (no impact)
- Material dependence on cash flow sweeps: (-3 notches)
- Adjusted preliminary operations phase SACP: bb+
- Operations counterparty ratings adjustment: Neutral
- Financial counterparty ratings adjustment: Neutral
- Operations phase SACP: bb+

Modifiers (Senior debt)

- Parent linkage: De-linked
- Structural protection: Neutral
- Extraordinary government: None
- Sovereign rating limits: BBB+
- Full credit guarantees: None
- Senior debt issue rating: B

## **Liquidity**

We continue to assess ENA Norte's liquidity as neutral. The project has a six-month DSRA and minor and major maintenance reserve accounts of about \$8.3 million, \$1.5 million, and \$1.25 million, respectively, as of August 2020. Additionally, the project benefits from having a restricted capital structure in which no dividend payments are allowed until 100% of the bond is paid.

## Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Corporates | Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Key Credit Factors For Road, Bridge, And Tunnel Project Financings, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
<b>ENA Norte Trust</b>		
Senior Secured	BB+/Negative	BB+/Watch Neg

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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect 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.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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