

## RATING ACTION COMMENTARY

# Fitch Affirms ENA Master Trust at 'BBB'; Outlook Remains Negative

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Fitch Ratings - Mexico City - 05 Nov 2021: Fitch Ratings has affirmed the 'BBB' rating on the fixed-rate USD400 million senior secured notes of ENA Master Trust due in 2048. The Rating Outlook remains Negative. Fitch has also assessed the Standalone Credit Profile (SCP) of the transaction at 'bbb'. The notes are supported by the cash flow generation of the Panama City Corridor Sur and Corridor Este toll-roads.

## RATING RATIONALE

The rating reflects the risk related to the operation of two toll roads, one with long track record and other that is still going through a ramp-up phase in Panama's capital city. Despite the projects' contractual ability to adjust tolls according to inflation, tolls have not been increased in most recent years; therefore, Fitch assumes that tolls will remain unchanged over the life of the notes. The ratings also reflect a standard debt structure that is senior, fully amortizing, with adequate structural features and covenant package.

The notes are rated under our "Government-Related Entities Rating Criteria," which factors Fitch's strong assessment for the link between the Panamanian government and the project and moderate assessment for the perceived incentive of government support when needed.

Fitch's rating case minimum and average (DSCR) is 2.5x (in 2039) and 2.8x, respectively. These metrics are high for the SCP's rating category, according to the applicable criteria. However, the ratings are constrained at one notch above Panama's sovereign rating

(BBB-/Negative) given the linkages between ENA Master Trust and the Panamanian government. The international rating one notch above the sovereign is supported by the project's resilience to severe stresses beyond those observed under adverse macroeconomic conditions and by the existence of robust contractual ring-fencing provisions that limit cash flow transfers to the Government of Panama.

The Negative Rating Outlook reflects the links between ENA Master Trust and the Panamanian government, where a downgrade of the Issuer Default Rating of Panama would result in a downgrade of the rating of ENA Master Trust.

## **KEY RATING DRIVERS**

**Moderate Volume Risk [Revenue Risk-Volume: Midrange]:** The two corridors represent important links for commuters and commercial traffic in the capital city of Panama. Given the recent infrastructure changes in the city, the assets face competition from free alternatives and other transportation modes. While the Sur corridor has a long track record of traffic, the Este corridor has started operations more recently and traffic shows limited history with some volatility. Nonetheless, Este corridor's ramp up risk is largely mitigated by the fact that Sur corridor's revenues represent roughly 80% of the transaction's revenues.

**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 expected to be updated in the medium term.

**Suitable Infrastructure Plan [Infrastructure Development and Renewal: Midrange]:** Sound contractual requirements to fund capex costs are in place for the two corridors. The concessionaire already has short- and medium-term maintenance plans in place to perform the works required in certain sections of the corridors. The capital investment program is internally funded. The structure includes a 12-month reserve fund for major maintenance.

**Standard Debt Structure [Debt Structure: Midrange]:** Debt is senior with fixed interest rate and a fully amortizing profile. There is a 12-month debt service reserve account, adequate distribution trigger and covenant package and restrictions to incur additional debt.

**Financial Profile:** Under Fitch's rating case, minimum and average DSCRs are 2.5x (in 2039) and 2.8x, respectively. Such metrics are above of the indicative range for the rating category. Nevertheless, the rating is constrained at one notch above the sovereign rating (BBB-/Negative) due to the project's linkage with the Panamanian government.

## PEER GROUP

ENA Master Trust's closest peer in Latin America is Autopistas del Sol's (AdS) rated 'B'/Outlook Negative. Both projects provide important connectivity within their respective areas and are subject to increasing competition from free alternatives. They also share Midrange assessments for key rating drivers except Price, which is Weaker for ENA Master Trust. AdS's average DSCR is lower than ENA Master Trust's at 1.1x and its rating is limited by the sovereign rating of Costa Rica (B/Negative).

ENA Master Trust is also comparable with Concesionaria Mexiquense, S.A. de C.V. (Conmex, BBB/Stable). Conmex's metrics are higher than ENA Master Trust's with average DSCR at 3.3x. However, Conmex's rating is capped at one notch above Mexico's sovereign rating (BBB-/Stable) due to the toll road's exposure to the country's economic prospects.

## RATING SENSITIVITIES

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

--A negative rating action on Panama's sovereign rating.

--Although remote, a substantial and sustained deterioration of the project's performance that pressures liquidity levels and erodes coverage ratios to levels consistent with a lower rating.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

--The Rating Outlook may stabilize following a stabilization of Panama's sovereign rating.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **CREDIT UPDATE**

During 2020, Corridor Sur's average annual daily traffic (AADT) fell to 86,310 vehicles, representing 51.1% of 2019's AADT, while toll revenues decreased to USD35.8 million, equal to 51.3% of 2019 revenues. These figures are in line with Fitch rating case's expectations of 50% recovery of traffic and revenues. Corridor Este had an AADT of 14,137 vehicles, 54.8% of 2019 traffic, while revenues from toll collections were USD9.7 million, 54.5% of 2019 revenues. These figures compare favorably to Fitch rating case's expectations of 50% recovery of traffic and 51% of revenues. The traffic and revenue reductions are attributed to the effects of the coronavirus pandemic and to the mobility restrictions imposed to contain it.

As of August 2021, overall traffic has recovered to 70.4% of 2019 AADT, a slower pace than the 90% recovery expected by Fitch in our previous review. In Corridor Sur, revenues up to August 2021 were USD32.3 million while revenues in Corridor Este for this same period were USD 8.6 million, both equal to 69% of each corridor's revenues up to August 2019. According to the issuer, the slower-than-expected recovery is the result of a slower economic growth in Panama and the work at home trend that has hampered commuter traffic.

Expenses over 2020 and 2021 were lower than those of previous years, mainly due to lower tax payments and major maintenance expenses. These expenditures were generally in line with our Rating Case in 2020, however, these disbursements were significantly lower than expected in 2021 due to lower general and administrative expenses and postponed major maintenance investments.

As of September 2021, DSCR has been 2.2x, below Fitch rating case's expectation of 3.1x. The difference driven by lower revenues which were not sufficiently offset with lower expenses, resulting in a lower metric.

## **FINANCIAL ANALYSIS**

### Fitch Cases

Given traffic in 2021 has underperformed Fitch's expectations, for this review, the short-term traffic projection in both the base and the rating case have been adjusted.

Fitch's base case assumes 2021 traffic will be 70% of 2019 level, and would reach 90% in 2022. In 2023, Fitch assumes traffic recovers to 2019 levels, followed by a traffic CAGR up to 2048 for ENA Sur and up to 2045 for ENA Este of 1.5%. O&M and major maintenance expenses were increased by a 2% inflation plus 5% for every year from the concessionaire's budget. Toll rates are assumed to remain fixed for the debt term. Under this scenario, minimum and average DSCR is 2.6x and 2.9x, respectively.

Fitch's rating case assumed the same traffic level in 2021 as the base case but a lower recovery in 2022 and 2023 at 80% and 90% of 2019 levels, respectively. In 2024, Fitch assumes traffic will recover to 2019 levels, followed by a traffic CAGR up to 2048 for ENA Sur and up to 2045 for ENA Este of 1.5%. Fitch also assumed the same levels of inflation and toll rate assumptions as the base case. O&M and major maintenance expenses were increased by inflation plus 7.5% for every year from concessionaire's budget. Under this scenario, minimum and average DSCR is 2.5x and 2.8x, respectively.

## **SECURITY**

The notes are secured by a first-priority security interest in and lien on all material assets of the issuer, including a pledge of shares of ENA Este, S.A. and ENA Sur, S.A.; the assigned rights, including the right to receive toll collections from Corridor Sur and Corridor Este, and compensations from the government to maintain contractual equilibrium and payments according to the concession agreements; and the transaction accounts.

Corridor Sur extends over 19.8 kilometers (approximately 12.3 miles) connecting Panama City's international airport (in the East) to the CBD (in the West). Corridor Este (Phase IIB) is an extension of Panama-Madden Segment that runs northwest, connecting to the Interstate Colon Highway, connecting with the Pan-American highway in Tocumen International Airport. ENA Sur and ENA Este operate the toll road concession of Corridor Sur and Corridor Este and have no other significant commercial activities. ENA Este and ENA Sur are subsidiaries of Empresa Nacional de Autopista S.A. (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.

## **RATING ACTIONS**

<b>ENTITY/DEBT</b>	<b>RATING</b>	<b>PRIOR</b>
ENA Master Trust		

ENTITY/DEBT	RATING	PRIOR
● ENA Master Trust/Senior Notes/1 LT	LT BBB Rating Outlook Negative	Affirmed BBB Rating Outlook Negative

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## **APPLICABLE CRITERIA**

[Toll Roads, Bridges and Tunnels Rating Criteria \(pub. 26 Jun 2020\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Metodología de Calificación para Infraestructura y Financiamiento de Proyectos \(pub. 26 Oct 2020\)](#)

[Metodología de Calificación para Autopistas de Cuota, Puentes y Túneles \(pub. 13 Nov 2020\)](#)

[Infrastructure and Project Finance Rating Criteria \(pub. 23 Aug 2021\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificación de Entidades Respaladas por Ingresos del Sector Público \(pub. 23 Sep 2021\)](#)

## **APPLICABLE MODELS**

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

GIG MTR Model, v1.7.1 [\(1\)](#)

## **ADDITIONAL DISCLOSURES**

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ENA Master Trust

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