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ENA Master Trust

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Project Description

ENA Master Trust (ENA or the project), is a limited purpose entity that owns ENA Sur and ENA Este. ENA Sur operates a 19.8-kilometer (km) urban toll road located in southern Panama City that connects the downtown area with the Tocumen International Airport. The construction of this asset began in May 1997, was partly opened in June 1999, and was completed in February 2000. The concession expires in June 2048, one month after the debt's maturity. ENA Este operates a 10.2 km toll road located in northern Panama City (formally known as Corredor Norte fase IIB). This toll road has been fully operational since 2015 and was designed as an extension of (BB+/Negative) to connect the northern corridor to the southern one. ENA Este's concession ends in 2045.

None

ENA is a subsidiary of **Empresa Nacional de Autopistas S.A. (ENA)**. The latter is a company created and owned by Panama (BBB/Negative/A-2) to build and operate toll roads in the country.

The operator of both corridors is Maxipista de Panama S.A. (Maxipista; not rated) and we expect it will continue to be so given the administration contract, which expires when each concession ends.

Credit Highlights

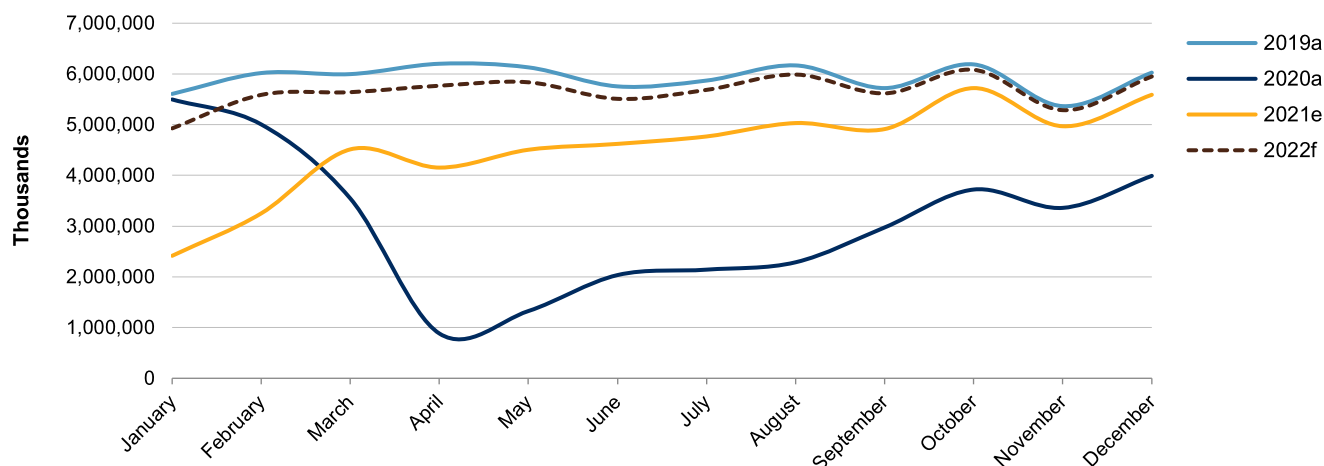
Overview	
Key strengths	Key risks
Solid coverage metrics, indicated by our expectations of a minimum debt service coverage ratio of 2.4x in May 2048.	Constrained by the sovereign's creditworthiness because we don't believe that ENA could withstand a sovereign default.
Strategic location around Panama City.	All revenues depend on traffic performance, which is inherently volatile.
Favorable traffic mix composed mostly by commuters, who tend to be more resilient during an economic downturn than heavy traffic.	Some competition from alternative free roads, which also increases traffic volatility.
Solid liquidity reserves to withstand a downside scenario.	

ENA Master Trust (ENA) benefits from a strategic geographic location and a favorable traffic mix that supports the toll roads' performance, reflected in its solid coverage metrics. Both ENA Sur and ENA Este service the country's most densely populated areas and key commercial and residential areas of Panama City. This enhances ENA's competitive position, as seen in a historical compound average traffic growth rate up to 2019, before the COVID-19 pandemic hit Panama in 2020, of 7.5%, slightly above the country's average annual GDP growth.

After the 48% drop in traffic volume in 2020 due to mobility restrictions, traffic in ENA Sur and ENA Este has increased about 49% from January to September 2021 from the same period in 2020. This represents about 80% of 2019 levels. We expect a full traffic recovery by 2023 to 2019 levels.

Chart 1

ENA Sur And ENA Este's Combined Total Traffic



Source: S&P Global Ratings.
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In our opinion, ENA will post strong financial metrics during the bonds' term, as seen in the robust debt service coverage ratio (DSCR) that we estimate will remain above 2.4x, with an average DSCR of 3.3x. We expect the minimum DSCR to be in May 2048, which is the last payment period of the notes, when the company faces its largest principal payment (\$23.2 million).

Comfortable liquidity reserves. The project benefits from a 12-month debt service reserve account (DSRA) that would allow ENA to comfortably withstand a downside scenario—including macroeconomic and operating stresses—for more than five years. Moreover, the project will maintain a reserve account to cover at least 12 months of major maintenance costs and one month of operations and maintenance (O&M), which we believe mitigates the absence of a cash lock-up mechanism.

The sovereign rating continues to limit that on ENA. The rating on ENA is currently limited by the rating on Panama, given that we don't believe the project could withstand a sovereign default. This is because ENA is exposed to the regulator's (Ministry of Public Works) decisions, which could affect its financial performance. The regulator approves tariffs, capital expenditures (capex), and new debt.

Outlook

The negative outlook on ENA reflects our view that there is a one-in-three chance of a downgrade if we were to cut our rating on Panama to 'BBB-' in the next six to 24 months. This could occur if we perceive a persistent erosion of the fiscal trajectory in the next few years because of a poor economic recovery or sluggish policy reaction to address challenges stemming from a narrow tax base, spending rigidities, and the depleting reserves of the social security system. An unexpected worsening of external financing requirements following recent improvement or signs that Panama's trend growth may not continue to surpass that of its peers would also lead to a downgrade.

Upside scenario

We could revise the outlook to stable if we were to revise that on the sovereign. Moreover, given that we cap our rating on ENA at the sovereign rating, we could upgrade the project if we were to do the same on the sovereign.

Performance Update

In 2020, traffic dropped 48% compared to 2019 levels, in line with our previous expectations of 45%. so far this year, from January to September 2021 traffic for Ena Sur and Ena Este increased about 49% from 2020 levels. This is close to our updated projections of 48% traffic growth for 2021. Although this is below the 65% increase we previously expected, it has no major effect on the minimum DSCR given that we continue to expect traffic to fully recover to 2019 levels by the end of 2023.

Regarding tariffs, we continue to project no tariff increases given the discretionary rate adjustment mechanism.

Our Base-Case Scenario

Assumptions

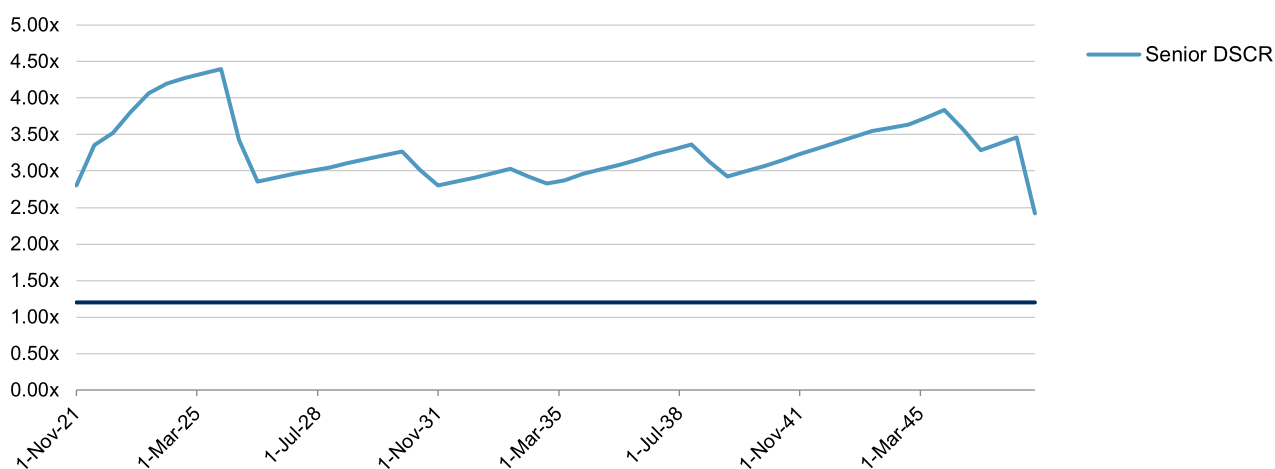
- Our assumptions are in line with our expectations stated in our latest "Sovereign Risk Indicators" publication, published on Oct. 12, 2021. We expect Panama's real GDP to be the main driver of the toll road's traffic growth and costs to be adjusted to the country's inflation rate.
- Panama's GDP growth of 6.5% in 2022 and 5.0% in 2023 and 2024.
- Panama's inflation of 1.5% in 2022 and onward.
- Traffic growth of about 48% in 2021 (77% of the 2019 level), and 25% in 2022 (96%). Moreover, we forecast a full recovery of traffic in 2023 and long-term traffic growth of 1% to 3%, which would be about 0.5x Panama's GDP growth.
- No tariff increases given the discretionary rate adjustment mechanism.
- Annual O&M, minor maintenance costs, and other costs of \$12 million-\$13 million in the next three years and about \$15 million starting 2025.
- Major maintenance costs of \$5 million-\$6 million for the next three years and an average of \$6.2 million from 2025 and beyond.

Key Metrics

- A minimum DSCR of 2.4x in May 2048; and
- An average DSCR of 3.3x.

Chart 2

S&P Global Ratings' Base-Case DSCR



DSCR--Debt service coverage ratio. Source: S&P Global Ratings.
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Table 1

Preliminary Operations Phase SACP

--Preliminary operations phase SACP outcome in column headers--

--Minimum DSCR ranges shown in the cells below*--

	aa	a	bbb	bb	b
OPBA					
1-2	=> 1.75	1.75–1.20	1.20–1.10	<1.10§	<1.10§
3-4	N/A	=> 1.40	1.40–1.20	1.20–1.10	< 1.10
5-6	N/A	=> 2.00	2.00–1.40	1.40–1.20	< 1.20
7–8	N/A	=> 2.50	2.50–1.75	1.75–1.40	< 1.40
9–10	N/A	=> 5.00	5.00–2.50	2.50–1.50	< 1.50
11-12	N/A	N/A	N/A	=> 3.00x	< 3.00

*DSCR ranges include values at the lower but not upper bound. For example, for a range of 1.20x-1.10x, a value of 1.20x is excluded while a value of 1.10x is included. §To determine the outcome in these cells, the key factors are typically the forecasted minimum DSCR (with at least 1.05x generally required for the 'BB' category), as well as relative break-even performance and liquidity levels. Please see "Project Finance: Project Finance Operations Methodology," published Sept. 16, 2014. SACP--Stand-alone credit profile. OPBA--Operations phase business assessment. DSCR--Debt service coverage ratio. N/A--Not applicable.

Downside Case

Assumptions

- We modeled a downside scenario, assuming a five-year down cycle scenario with a traffic 6% lower than the base-case growth rate for two consecutive years starting in 2022, followed by a 3% drop between 2024 and 2026. Moreover, and because of the length of the project, we assume a second five-year down cycle scenario from 2041 to 2045.
- We also modeled the O&M and capex costs 10% higher than those in our base-case projections.
- An increase in inflation of 100 bps, which also affects O&M costs.

Key Metrics

- A minimum DSCR of 1.4x in May 2048; and
- An average DSCR of 2.3x

Peer Comparison

We believe that ENA's closest peer is Sociedad Concesionaria Costanera Norte S.A. (A/Stable), a 30 km Chilean urban toll road that runs through the country's capital city. Moreover, the mix of traffic is similar in both projects because they both have high reliance on commuters, which represent about 95% of total traffic. However, we think that ENA has more competition from alternative free roads, which is why we assess a higher market risk and therefore a higher operation phase business assessment. Therefore, although both projects reach similar DSCRs through the life of the

transaction, we assess a lower SACP to ENA.

We also consider ENA Norte (BB+/Negative) as a peer for ENA given that both projects are subsidiaries of Empresa Nacional de Autopistas S.A. (not rated), have the same operator (Maxipista), and operate around Panama City. Both projects are connected because ENA Este connects ENA Norte with ENA's corridor ENA Sur. Still, ENA Norte's SACP incorporates a negative three-notch adjustment given its material dependence on cash flow sweeps. ENA Norte's notes don't have a scheduled amortization and its 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.

Table 2

	ENA Master Trust	Sociedad Concesionaria Costanera Norte S.A.	Sociedad Concesionaria Autopista Central S.A.	ENA Norte
Operations phase SACP (senior debt)				
Asset class operations stability	3	3	3	3
Performance risk	3	3	3	3
Operations phase business assessment	8	4	4	4
Minimum DSCR	2.4x	2.45x	1.7x	2.0x
Average DSCR	3.3x	3.75x	1.9x	9.3x
Preliminary SACP	bbb+	a	a-	a-
Downside assessment	a(+1 notch)	a(neutral)	a(neutral)	bbb+ (-1 notch)
Capital structure and avg. DSCR	Neutral	Neutral	Neutral	Material dependence on cash flow sweeps (-3 notches)
Liquidity	Neutral	Neutral	Neutral	Neutral
Comparative ratings analysis	Neutral	Neutral	Neutral	Neutral
Counterparty rating adjustments	None	None	None	None
Sovereign rating limitation	BBB	A	A	BBB
Operations phase SACP	a-	a	a-	bb+
Modifiers (senior debt)				
Parent linkage	De-linked	De-linked	De-linked	De-linked
Structural protection	Neutral	Neutral	Neutral	Neutral
Full credit guarantee	None	None	None	None
Senior debt issue rating	BBB	A	A-	BB+

SACP--Stand-alone credit profile. DSCR--Debt service coverage ratio.

Rating Score Snapshot

Operations phase SACP (Senior debt)

- Operations phase business assessment: 8 (1=best to 12=worst)
- Preliminary SACP: bbb+
- Downside impact on preliminary SACP: a- (+1 notch)
- Liquidity: Adequate (no impact)
- Comparative analysis assessment: Neutral (no impact)
- Adjusted preliminary operations phase SACP: a-
- Operations counterparty ratings adjustment: Neutral (no impact)
- Financial counterparty ratings adjustment: Neutral (no impact)
- Operations phase SACP: a-

Modifiers (Senior debt)

- Parent linkage: De-linked
- Structural protection: Neutral (no impact)
- Sovereign rating limits: BBB
- Full credit guarantees: None
- Senior debt issue rating: BBB

Operations phase SACP

The operations phase SACP is mainly driven by the following assessments:

- The assets' class stability--the risk that a project's cash flow will differ from expectations due to operational issues--that we assess at '3'. The score mainly reflects the risk to operate toll roads, particularly those that include large bridges that require periodic maintenance.
- A satisfactory competitive position, mostly thanks to the strategic location of the assets, which serve key commercial and residential areas of Panama City, and because the bulk of traffic is light vehicles.
- Low market risk because of the inherent traffic volatility of the project, illustrated by a 15%-30% variation in cash flow available for debt service (CFADS) under periods of stress, and given that the toll roads face competition from alternative free roads such as Domingo Diaz Avenue.

Our base-case scenario incorporates a minimum and average annual DSCR of about 2.42x and close to 3.3x, respectively, during the bonds' term, which combined with our view of the operational risk of the project, results in a preliminary SACP of 'bbb+'. Moreover, we believe the project will maintain good financial metrics even under a stress scenario in which we assume two five-year down cycle scenarios with traffic 3%-6% lower than the base-case growth rate, 10% higher operating costs, and a 100 basis point higher inflation. As a result, we adjust the preliminary SACP by one notch to 'a-'.

Operations counterparties

The project has no counterparties that pose a rating constraint. ENA is--and will continue to be--exposed to market risk. However, the diverse base of users (who pay the tariff) mitigates, in our view, the concentration of one single or a few counterparties.

In terms of operations, we expect the current operator could be substituted by other operators in a short period of time and without cost overruns. This is because the contract price is in line with market trends, and there are several other operators in the country and region that could provide the same service. Additionally, the project has one month of credit enhancement (through a fully funded O&M reserve account) to continue operating the asset if it needs to replace the operator.

Financial counterparties

The project has two bank account providers: Banistmo S.A. (BB+/Stable/B), where the project maintains the temporary concentration of funds and local payments, and Bank of New York Mellon (AA-/Stable/A-1+), the offshore account that holds all the other accounts (including the reserve accounts). We don't consider that any of the financial counterparties pose a rating constraint, given that other banks could replace them.

Liquidity

ENA's liquidity is neutral, in our view. The project benefits from an adequate liquidity position, with a 12-month DSRA, and from its reserve account that covers one month of O&M costs and 12-month major maintenance reserve account. The latter could eventually cover additional O&M costs if necessary, reaching an O&M reserve account of up to 12 months.

In our view, the possibility of retaining cash in a reserve account of at least 12 months of operations mitigates the absence of a forward-looking cash lock-up mechanism.

Ratings above the sovereign

Although the operations phase SACP is above the 'BBB' rating on the sovereign, we cap the rating on ENA at the level of Panama, given that we believe that the project couldn't withstand a hypothetical sovereign default. We believe ENA has high exposure to the regulator, which approves tariffs, capex, and new debt. Therefore, we believe the government's decisions could affect the project's cash flows, particularly under a sovereign stress event.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | Project Finance: Key Credit Factors For Road, Bridge, And Tunnel Project Financings, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Framework Methodology, Sept. 16, 2014

- Criteria | Corporates | Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: 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 Detail (As Of December 17, 2021)*

ENA Master Trust

Senior Secured

BBB/Negative

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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