

Tocumen International Airport

Multi-Year Capital Program Unlocks New Terminal Construction and Improves Credit Rating

Case Study

The Client Panama's Tocumen is among the largest Latin American airports by international traffic, a critical transit node for the Americas, and, together with the Canal, a pillar of Panama's role as a global trade, logistics and transport hub.

The Challenge Tocumen is a major Latin American airport and a critical part of Panama's infrastructure. The airport was operating above capacity and had begun the construction of a new terminal. However, progress stopped due to lack of funding and restrictive covenants which prevented additional financing. The airport's underlying ratings had been downgraded to non-investment grade. Citi was appointed to develop a new international best-in-class credit structure, advise Tocumen on its approach to rating agencies, and raise incremental capital.

The Solution Starting in 2016, Citi brought Tocumen to market three times in line with its plan to strengthen the airport's capital base and enable it to complete its second terminal.

In 2016, Citi was underwriter of a \$575 million 144A/Reg. S bond issue – the largest international bond for a Latin American airport – under Tocumen's newly developed credit structure. The transaction fully funded the planned terminal works and provided a path to growth, as well as supporting ratings upgrades. As part of the deal, existing bondholders agreed to amend terms to match the new structure.

A second \$225 million issue in May 2018 raised additional capex for Tocumen and extended its maturity profile to 30 years, aligning it with the airport's assets. Tocumen returned to the market in November 2018 to refinance local Panamanian notes issued in 2013 by reopening the May transaction with a \$650 million deal, which was the largest non-energy infrastructure bond issue from Latin America in 2018. The transaction extended the weighted average life of Tocumen's debt from around nine years to about 17 years and freed-up cash flows of approximately \$200 million over the next five years. Its success came despite headwinds from the bond market and investor concerns about the airport sector in Latin America.

The Result Citi's development of an international best-in-class credit structure and three subsequent bond issues have strengthened confidence in one of Panama's most important economic assets and provided the investment it requires for future growth. The transactions have reduced refinancing risk as the new debt will have a smoother amortizing profile with a longer tenor that matches the airport's "perpetual" asset life. They have also significantly diversified Tocumen's investor base by type and geography. The airport now has a consistent credit structure in the international 144A/Reg. S markets and greater financial flexibility for future fundraising.

The success of the plan and transactions has accompanied continued operational strength for Tocumen. Traffic has grown at a compound annual growth rate of more than 10% for over a decade and during the first half of 2018 the airport served a record 16 million passengers. Terminal 2 will be fully operational by mid-2019 and Tocumen's credit structure gives it the flexibility to issue debt that would allow it to fund future works such as a potential third runway.