Panama Canal Authority

Strong, efficient & profitable – who wouldn't want to own the Panama Canal?

Company Update

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Global Emerging Markets | Corporate Credit
LatAm | Panama
Transportation

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But it's not for sale; only Panama owns/controls the Canal.

Since Panama assumed full control of the Canal in 1999, the Panama Canal Authority (PCA) has doubled the capacity with a US$5.25bn expansion launched in 2008 and completed when Neo Panamax locks were inaugurated in 2016. In 2024, PCA registered the largest container ship of 17,640 TEUs. Investments have totaled US$15bn over the past 25 years including US$10bn in capital expenditures and US$5bn in operational and maintenance expenses. PCA has also contributed close to US$20bn to the National Treasury since 2014 in the form of transit fees, public service fees, and earnings distributions. It also employees over 8,700 Panamanians.

No - the Chinese do not run the Canal.

Dr. Vasquez, CEO & Canal Administrator, updated the market last week on PCA's operational track record and responded to many questions recently raised by the new U.S. Govt. on ownership & control. He reminded investors that the PCA is an Autonomous apolitical authority and given its legal structure it operates at an arm's length basis from the Panamian govt. Its objective is to provide reliable, safe, efficient and uninterrupted transit for international trade. No foreign country, Chinese or other, has control over the Canal. Because of this and other factors, PCA currently has a higher credit rating than the Republic of Panama. (A3/BBB+/WD vs. Baa3/BBB-/BB+).

PCA's fees are market based & not based on nationality.

PCA emphasized that it does not bill clients on country of origin or flag on the ship. Pricing is market based on industrial segment and the type of vessel. The average fee on U.S. govt. warships and submarines is US$30k per transit, well below the average of US$150k per transit. Avg. annual revenues for the past 5 years from these vessels has been about US$600k. These vessels also receive priority for transits, in accordance with the Neutrality Treaty negotiated between the U.S. and Panama. Auxiliary ships from the U.S. govt, which account for about 35-40 transits per year have average fees of $150,000, in line with other vessels and represent about US$5mm in annual revenues. All pricing is market based on supply & demand.

Water situation is back to normal & transits growing.

After a tough FY 2024 (ended 30-Sept-24), when Panama hit by drought conditions and lower water levels, PCA's situation is back to normal with normal water levels and lakes at full capacity as of Dec-24. Daily transits have recovered to 36 transits from a trough of 24 transits daily in Nov-23 to March '24 to 36 by YE24. Currently, LPG transits are surging, dry-bulk is recovering and LNG is lagging. Strategic projects on West Bank are under evaluation and in the pipeline.

Maintain on MW on '35 bonds on valuation and liquidity.

Bond prices have actually moved up since YE24 and now yield 5.3%, vs 7.4% for the Republic of Panama's '35 bonds, and a spread differential of nearly 200bps (tighter).

Panama Canal Authority: Strategic asset in the eye of a political storm 23 December 2024

TEU = twenty-foot equivalent unit – a unit of measure to describe the capacity of a container ship or the volume of containers stored at a terminal

LPG = Liquefied Petroleum Gas

LNG = Liquified Natural Gas

Financial Review

Water Management is an ongoing challenge

Following severe drought conditions in 2024, water levels have fully recovered as of Dec-24 and PCA successfully restored operational capacity. Strategic momentum of Gatun and Alhajuela lakes has played a critical role in stabilizing operations, ensuring a 20% YoY increase in daily transits, now reaching 36 per day. The return of dry bulk shipments provides a temporary boost, especially in light of the Mississippi River's drought related disruptions. While LPG transits have recovered, the LNG segment remains below previous levels, prompting efforts to develop new strategies to attract shippers. Neopanamax vessels, which provide economies of scale, are seeing increased utilization as the canal optimizes capacity for larger ships.

Financial performance on an improving track for 1QFY25

Although transit volumes and tonnage grew by 20% and 13%, respectively, net income declined from $969mn to $917mn YoY, largely due to a drop in auction revenues that had temporarily surged in early 2024 during transit restrictions. While cost per ton has normalized at $10.38, operating expenses have risen by 3%, reflecting ongoing investments in technology, infrastructure and new businesses initiatives.

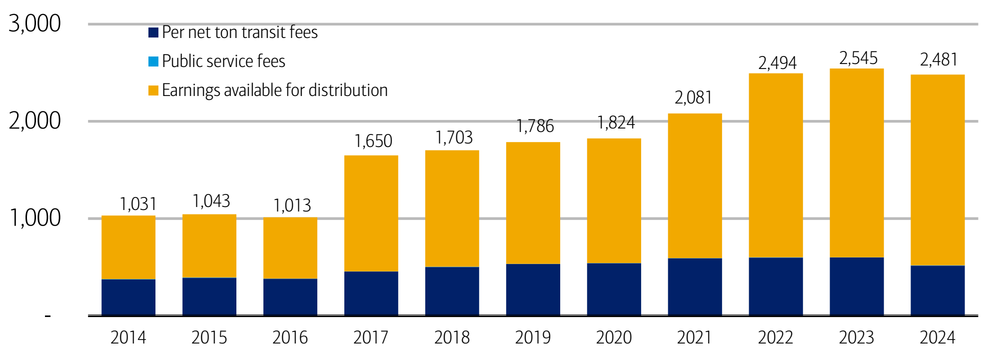
PCA modified toll fee structure as a result of the drought.

The drop in the number of transits led the PCA to reevaluate and modify its fee structure. In addition to a fresh-water surcharge, PCA implemented a system of reservations, auctions and a new toll structure for the 2023-2025 period. A policy of "full booking" was implemented, with reservations required for specific dates and time slots, and customers can book throughout the year and up to a year in advance. This moved bookings from a "reliability" system to "certainty" in this market. Currently, waiting times to transit the canal have dropped from 5-7 days to just 2-3 days.

Water security projects move forward

To safeguard against future water shortages, the Indio River project is advancing with expectations that it will match Alhajuela Lake in capacity. This initiative is part broader effort to restore and optimize the Panama Canal watershed, providing a more sustainable approach to water management. A community census is currently underway to assess resettlement needs, and the relocation process is expected to begin by the end of 2025. Infrastructure improvements, such as road construction, are also in progress to facilitate better access to the project site.

Exhibit 1: Distribution of profits to Panama's National Treasury (US$mm)
Since 2014, distributions have reached nearly US$20bn



Source: BofA Global Research estimates, company report

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Distributions to govt. down slightly to US$2.478bn. FY 2.478 bn in 2024 distributions and this year slightly above that. Distributions since 2014 are near US$20bn.

Strategic importance & China's role

How important is the Panama Canal?

The role of Panama Canal is very strategic as it allows for maritime transport between the Pacific and Atlantic Oceans. It is estimated that 5% of global trade passes through the Canal every year. Currently, U.S. vessels accounts for nearly 50% of 2024 tonnage, followed by Asia and Latin America. Main routes are Asia-US East Coast, West Coast South America – East Coast USA, West Coast C. America – East Coast USA and West Coast South America – Europe.

Key concerns appear to be potential Chinese influence.

Looking deeper into the multiple communications between the U.S. and Panama as well as multiple news articles (the Economist, FT, Wall Street Journal) , the crux of the dispute seems to be concerns of the new U.S. Administration that China could exert undue influence over a strategically important route for U.S. military as well as commercial vessels in times of geopolitical tension or stress. The issues surrounding the Panama Canal and the two Hong Kong owned ports at its entrances is just one of areas of concern. Other concerns include: 1) Chinese construction of a Bridge over the Panama Canal, 2) Panama's signatory of China's Belt & Road Initiative, 3) multiple agreements signed between China and Panama after establishing diplomatic relations in 2017 once Panama stopped recognizing Taiwan as the Government of China.

What is the role of a Port Operator?

Essentially, a port operator helps to manage the loading and unloading of ships and the management of cargo through the port. There are five ports at each entrance to the Panama Canal.

What about Chinese owning Panama based ports?

Two of the five ports are owned/managed by a subsidiary of a well-known Hong Kong based global port operator – Hutchinson Whampoa, also known as CK Hutchinson Holdings. They operate the **Balboa Port** on the Pacific entrance to the Canal and the **Cristobal Port** on the Atlantic Side. They operate under the name "Panama Ports Company" (PPC) The initial concessions granted to PPC were signed by the U.S. Administration prior to the transfer to Panama of PCA in 1997 and prior to Hong Kong being returned to the PRC (People's Republic of China). In the last two weeks, the Chinese Foreign Ministry said that *"China does not participate in the management and operation of the canal and has never interfered in the affairs of the Canal", according to The Guardian Newspaper. Separately, PPC said that it is the only canal port operator where the Panamian state is a shareholder. More than 99% of its workforce is Panamanian.*

Rep. of Panama, not PCA holds the Port contracts.

The Panama Canal Authority does not have responsibility over Port concessions and port operators in Panama. These concessions are signed by the Republic of Panama. The only responsibility is operational because they are located in Panama Canal waters and PCA pilots must lead vessels from the ports in and out of the Canal. There is no ownership participation by any of the ports in PCA or vice versa. The other three port concessions in Panama have been granted to

> **Port of Colon:** Located in North Coco Solo, Province of Colon. It is operated by **Evergreen Marine Corp:** It is a Taiwan based shipping company that purchased a 100% interest in the Panamian Colon Container Terminal from its affiliates in 2022 for US$268mm. This was previously the site of a US Navy base but was converted into a container handling facility.
>
> **Port of Singapore Authority (PSA):** This is the world's largest transshipment hub according to its website. It is owned by Temasek Holdings, a Singaporean state-owned multinational investment firm with a portfolio of US$389bn of assets. PSA operates 70 deep-sea, rail and inland terminals in more than 45 countries. In Panama it manages the PSA Panama International Terminal.

Manzanillo International Terminal (MIT) is located East of the opening of the Panama Canal on the Atlantic coast. The project was originally a US Navy seaplane base during World War II. Today it is primarily owned by Carrix, Inc. the parent company of SSA Marine, a global container terminal operator.

Military vessels are given priority.

The Panama Canal provides priority transit to military vessels for transiting through the Canal. The original size of military vessels was made to be able to pass through the Panama Canal (Panamex vessels). As highlighted previously, the number of military vessels has been relatively limited to date and represents a very small share of the PCA's revenue base (much less than 1%).

Contracts under review by Panama Maritime Author.

News reports indicate that Panama is analyzing whether to cancel its contracts with PPC near the canal, but no decision has been made. The reports indicate that the government would proceed in a way intended to avoid lawsuits and follow due process. The initial concession, first signed in 1997 was extended in 2021 until 2047. Auditors are currently reviewing PPC's situation with a goal of guaranteeing the efficient and transparent use of public resources and to make sure there are no irregularities. PPC is cooperating with the auditors.

Bridge over the canal awarded to a Chinese consortium.

Another cause of concern for the U.S. is that a Chinese consortium backed by China Harbour Engineering and China Communications Construction Company have been awarded a US$1.4bn highway bridge over the canal to easy traffic in Panama City as per a news report from CNN (07-Feb-25). It is a construction contract and in the very early stages. The Panamian govt. tendered for that contract, and PCA has little to do with it except confirm specifications required by PCA. The contract is granted by Ministry of Public Works.

Canal fees less than 1% of transported merchandise

PCA has estimated that Canal fees are less than 1% of the value of merchandise transiting the canal. In its 3QFY24 Market Call, PCA Administrator, Ricaurte Vasquez indicated that it had estimated that total transit fees are less than 1% of the value transiting the canal estimated at US$581bn p.a.

Change of control in 2035 bonds

Although we do not expect any change of control on current discussions, we note that the bonds have a Change of Control clause that can be exercised by investors at $100 plus accrued interest. According to the bond's Offering Memorandum, the definition of a change of control is defined below

"Change of Control" means either (i) the Issuer ceases to be a public autonomous entity of the Republic of Panama as currently contemplated by Article 316 of Title XIV of the Constitution of the Republic of Panama and Article 2 of the Organic Law or (ii) the occurrence of any amendment of either Chapter 1 of the Organic Law or 97 Sections First through Third or Chapter III of the Organic Law that has the effect of modifying in a material and adverse manner the prohibition on the ability of the Government of Panama to impose taxes or charge expenses to the Issuer, borrow from the Issuer or encumber or dispose of the assets and revenues of the Issuer." For more information, please see Page. 96 of the Offering Memorandum

Valuation & risk

Panama Canal Aut. (AUTOPA)

AUTOPA is a strategic gateway in global shipping, representing 5% in global maritime commerce and is a leader (+50% market share) in the NE Asia-US East Coast container cargo market. AUTOPA is a positive free cash flow generator, even during periods of transit declines, due to pricing power, for example with AUTOPA's fresh water surcharge. AUTOPA also has low gross leverage and a large net cash position. We are Marketweight the bonds since they trade nearly 200bps tighter than Panama sovereign which we feel is fair given its higher credit ratings. Yields are currently around 5.735%

Downside risks: (1) downgrades to Panama sovereign and/or AUTOPA although we expect AUTOPA to maintain Investment Grade (IG) given its higher rating than the sovereign by several notches , (2) weaker maritime trade growth and lower volumes, (3) competition from other transportation means, (4) longer than expected lower water levels forcing draft restrictions and/or reduced transits through the Canal, (5) greater capex related to future water management system megaproject, and (6) intervention from the U.S. government who has indicated it wants to take over the Panama Canal.

Upside risks: (1) more vessels transiting the Canal at higher fees (2) greater than expected rainfall in lake Gatun, (3) decrease in U.S.-China trade tensions, leaving China's position in the global supply chain intact, (6) new and/or higher fees driving higher revenues.

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Panama Canal Authority / AUTOPA

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.95, Senior, USD, 2035:B	450	29-JUL-2035	A3/BBB+/WD	95.10	07-Feb-2025	5.61	114

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Panama Canal Authority / AUTOPA

Security	Date[R1]	Action	Recommendation	Price
4.95, Senior, USD, 2035:B	31-Jan-2024		Overweight	
	04-Mar-2024	Downgrade	Marketweight	89.25

Table reflects credit opinion history as of previous business day's close.[R1]First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."
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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2024)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R2]	Count	Percent
Buy	135	37.82%	Buy	105	77.78%
Hold	169	47.34%	Hold	143	84.62%
Sell	53	14.85%	Sell	47	88.68%

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