EDISON

Jersey Electricity

Investing in resilience

Company outlook

Utilities

22 April 2025

Jersey Electricity (JEL) is bringing forward capital spending to boost resilience and improve the security of its supply. Our analysis indicates that the £180m capex plan over the next five years, which includes £120m for what is referred to as 'The Big Upgrade', is comfortably affordable given the current health of JEL's balance sheet (gearing peaks at less than 30% in 2029) and should not require above-inflation retail price increases beyond 2025. JEL beat our expectations for FY24 earnings, and looks well hedged to price exposures for the next two years.

Year end	Revenue (£m)	EBIT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
9/23	128.7	15.7	36.81	19.40	11.5	4.6
9/24	135.7	15.3	37.92	20.40	11.2	4.8
9/25e	144.8	12.5	27.62	21.45	15.4	5.0
9/26e	148.7	16.6	38.02	22.62	11.2	5.3

Note: EBIT is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. EPS is reported. FY23 revenue and EBIT include rebate of £3.6m.

Infrastructure for resilience and energy transition

JEL has announced an acceleration in its investment programme, bringing forward capex to replace one of its three interconnectors to the French electricity grid, as well as installing significant gas turbine generation capacity and other supply resilience measures. The £120m plan, which will take total capex to £180m over five years, looks comfortably affordable based on our estimates, given that JEL is starting the programme with a healthy balance sheet: net debt/EBITDA of -0.5x in FY24, which we see rising to -0.01x and 0.6x in FY25e and FY26e, respectively, and peaking at 1.6x in 2029e (representing peak gearing of 22%, well below other utility peers at around 65%).

Some transition to new hedges in 2025

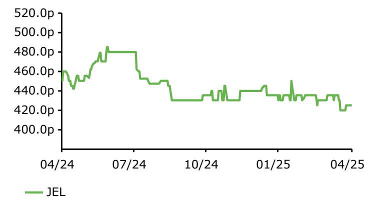
The company has managed customer exposure to volatile power markets well and has extended its forward price purchasing through 2025 (being effectively fully hedged at fixed prices). It is also 'substantially' hedged for 2026 and 2027. We have incorporated the announced 7.5% rise in retail tariffs for 2025 into our estimates and modelled some inflation in input and operating costs, resulting in a modest (6.3%) cut to our FY25 EBIT estimates. Beyond 2025, we have modelled largely inflation-linked rises in tariffs alongside some modest volume rises driven by continued decarbonisation efforts in domestic heating, but offset somewhat by efficiency gains.

Valuation: 67% upside to the current share price

Our valuation (based on a discounted cash flow/sum-of-the-parts blend) of 708p/share is marginally (4%) up from our previous valuation of 683p/share, primarily due to our FY26 forecasts being greater than originally anticipated. The stock is trading at 15.4x our FY25 estimate (in line with peer valuations) but 11.2x our FY26 estimate, a c30% discount to peers. The stock is already pricing in a more difficult 2025, and looks undervalued if earnings outperform our expectations in FY25 (and it looks undervalued beyond this year).

Price	**425.00p**
Market cap	**£49m**
Net cash at 30 September 2024, after deducting long-term lease liabilities of £4.2m	£15.0m
Shares in issue	11.6m
Free float	38.0%
Code	JEL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.2)	1.6	2.3
52-week high/low		476.5p	410.7p

Business description

Jersey Electricity is a vertically integrated power utility dealing in the importation, generation, transmission and distribution of electricity to Jersey. It also operates businesses in retail, property and business services on the island.

Next events

H125 results	20 May 2025

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Edison profile page

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Investment summary

JEL is the sole supplier of electricity to the island of Jersey, and its energy business was responsible for generating around 80% of the group's revenue and c 85% of its operating profits in FY24. The key driver for earnings is the spread between the price of wholesale power, which JEL buys from France under long-term contracts with a mix of fixed and capped pricing, and its consumer tariffs. The company has a self-regulated rate of return on its applicable energy assets of 6–7%. Therefore, ultimately consumers are exposed to changes in French wholesale electricity prices, although JEL manages this exposure to prevent short-term volatility. JEL is effectively fully hedged at fixed prices (but not volumes) for FY25, and is materially hedged for FY26 and FY27.

The company operates a range of other businesses, including property rental, retail and business services. The Government of Jersey (GoJ) remains the largest shareholder, with 62% of the ordinary share capital and 86.4% of the voting rights. JEL is intensifying its focus on energy security and supply, and electrification across Jersey, which will generate opportunities to accelerate growth. The company's focus on energy supply and security is highlighted by the recently announced increased capex spending programme, whereby JEL intends to invest c £180m in its electricity network, resilience projects and solar over the next five years.

Increased capex progressing supply and security protection

As the sole electricity supplier to Jersey, and with majority government ownership, JEL places high priority on the security and stability of electricity supply, as well as its role in enabling energy transition for the island (further details of this £120m initiative are outlined below). JEL is well positioned financially going into this initiative, with a healthy balance sheet: net debt/EBITDA of -0.5x in FY24, which we see rising to -0.01x and 0.6x in FY25e and FY26e, respectively, and peaking at 1.6x in 2029e (representing peak gearing of 22% in 2028e, well below other utility peers at around 65%).

Risks and sensitivities

- **Regulation:** JEL is a majority government-owned self-regulated utility. While we assume that returns on its energy assets will move nearer to the lower end of its 6–7% target range on a five-year rolling basis in the next few years, it is possible that returns may be lower due to general political pressure.
- **Interconnector failure:** JEL imports c 95% of its required electricity from Europe through undersea cables, therefore failure of one or more of these interconnectors would require a higher dependence on the use of JEL's on-island energy generation.
- **French wholesale pricing/foreign exchange rates:** higher French wholesale prices and a weaker sterling versus the euro increase the cost of electricity purchases for JEL. Although JEL can recoup additional costs from customers through tariff raises, this could invite additional political scrutiny.
- **Defined benefit pension scheme:** JEL's defined benefit pension scheme is an area of risk that continues to require careful monitoring as it is driven largely by movements in the financial markets and is materially affected by relatively small movements in the underlying actuarial assumptions.

Financials

JEL's FY24 results were slightly below our expectations for revenue (-2.8%), largely due to softer-than-expected volumes, but above our expectations for EBIT (+16.1%), due to good cost control. We remain of the view that revenue will be driven more by the passing through of tariff prices rather than unit sales volume growth in the near to medium term, and as such we have trimmed our FY25 revenue and EPS forecasts by 2.4% and 11.3%, respectively, to £144.8m and 27.6p/share.

We have also introduced estimates for FY26. We have increased our costs assumptions to reflect continued general inflationary pressures, as well as gradual rises in purchased power prices. Return on regulated energy assets was 7.3% in FY24, up from 7.2% in FY23 and 6.3% on a rolling five-year basis (in line with the 6–7% target range). For FY25, our estimates point to below the targeted range (a return of 5.4%, taking the five-year rolling average to 6.0%) based on our forecast modest volume growth, the 7.5% tariff increase, which came into effect on 1 January 2025, and our own modelling of the likely prices at which JEL has hedged its forward price purchases (the company now guides to being effectively fully hedged for 2025, so the risk of price spikes is minimal).

In recent, years JEL has held a net cash position at year-end (FY24: £15.0m, after deducting long-term lease liabilities of £4.2m). However, we forecast that its net cash position will reduce to c £0.3m by end-FY25 and move to a net debt position of c £17.3m by end-FY26, due to its increased capex spending strategy, whereby it aims to invest c £180m over the next five years. We view this move to a net debt position by FY26 as reasonable given JEL's investment aims and the health of its current balance sheet. The company had a net debt/EBITDA ratio of -0.5x in both FY23 and FY24, which we forecast will increase to -0.01x and 0.6x in FY25 and FY26, respectively. However, these values are still well below the industry average for regulated utilities. JEL's gearing (on an equity basis) for FY24 was c 12% and in our current forecasts, towards the back end of the company's increased capex strategy, remains below 25%. This again is significantly below the sector average for regulated utilities, which sits at around 65%.

Exhibit 1: Changes to forecasts

	Revenue (£m)			EBIT* (£m)			EPS* (p)			DPS (p/share)		
	Old	New	% change	Old	New	% change	Old	New	% change	Old	New	% change
FY24**	139.5	135.7	(2.8)	12.8	15.3	16.1	29.0	37.9	23.5	20.5	20.4	(0.5)
FY25e	148.2	144.8	(2.3)	13.4	12.5	(7.4)	30.7	27.6	(11.3)	21.7	21.5	(1.1)
FY26e***		148.7			16.6			38.0			22.6	

Source: JEL, Edison Investment Research
Note: *EBIT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **FY24 'new' is reported actual FY24 results and 'old' are our previous estimates. ***FY26 'new' is first introduction of estimates.

Increased capex programme

JEL is planning to increase its strategic investments to become 'net zero ready'. It plans to invest £180m over the next five years to improve the energy network and services across the island of Jersey.

The Big Upgrade

The Big Upgrade initiative is JEL's largest investment programme for some years. The upgrade will see the company invest around £120m in its electricity network over the next five years.

JEL will deliver subsea cable replacements, transmission and distribution asset replacements and increases in generation capabilities that support Jersey in its transition to net zero. The company lays c 7km of cables annually, and the upgrade will see this figure more than double to create additional capacity on its networks. It will also upgrade c 10% of its existing low-voltage networks to enable 20,000 customers to switch to electricity as fossil fuel heating systems are phased out (in line with the GoJ's Carbon Neutral Roadmap). JEL has also accelerated the replacement of its oldest subsea cable (N2), due to initial signs of deterioration with instances of fibre losses throughout 2024. As at 30 September 2024, the company's directors took the decision to fully impair the asset by £1.5m due to the nature of the rate of deterioration and the uncertainty around it, justifying the need for an accelerated replacement. However, operational risk is effectively mitigated through robust contingency measures, including sufficient import capacity and on-island generation capabilities, which are sufficient to meet the island's needs should such a failure occur. Management's strategic acceleration of this capital investment serves dual objectives: hedging against medium- to long-term operational risk exposure while simultaneously securing adequate long-term capacity.

Supply security

The board's review of JEL's security of supply standards last year resulted in the approval of the La Collette Resilience Programme and the installation of new gas turbines at the site to provide an additional 50MW of capacity. The programme commenced in 2024 and is expected to take up to four years to complete at an estimated cost of £30m, with the enhanced security of supply standards adopted by the summer of 2028.

JEL's enhanced security of supply standards consist of:

- a one-in-20-year winter peak demand;
- meeting 99% of all demand in a one-in-three winter following the loss of all supplies from France and the simultaneous loss of the largest on-island generator; and
- meeting 100% of demand in a one-in-10 winter following the loss of any submarine cables and the simultaneous loss of the two largest on-island generators.

Long-term green, clean energy

JEL's general strategy is to import competitively priced low-carbon power from France, from nuclear and certified hydro-electric sources. The company continues to work on reducing the costs of the island-sourced renewable energy to make it a meaningful and viable alternative component in its own energy mix.

During 2024, JEL launched its Solar 5000 campaign. Its goal is to power the equivalent of 5,000 homes with solar power by 2030. Management aims to achieve this through a mix of utility-scale, ground-mounted arrays, supported by rooftop solar. JEL is finalising the construction of its first utility-scale, ground-mounted solar PV array in St Clement. The project will deliver 4MW of energy and was commissioned in early 2025. Planning permission for the company's second array at St John (edge of Sorel) is underway, and management expects construction to begin imminently with commissioning later in 2025.

During 2024, JEL continued to explore offshore wind potential, including examining how this might be optimised in Jersey's energy system, potential roles for JEL and how the company could partner with the GoJ's Future Energy Group.

Solid revenue and marginal profit growth in FY24

JEL recorded revenue growth across the group of 8.5% y-o-y in FY24 (ending 30 September 2024) to £135.7m. The growth in revenue was largely driven by the 12% increase in tariffs in January 2024 in its energy business. PBT rose marginally by 1.3% y-o-y to £15.1m (FY23: £14.9m). Unit sales of electricity marginally increased year-on-year to 609m kWh (versus 608m kWh in FY23). Although JEL is continually seeing growth in connections and fuel switches, these are offset by increases in efficiencies and energy usage across the island.

JEL's normalised EPS increased c 3% y-o-y to 37.92p, due to increased profitability. DPS rose from 19.40p in FY23 to 20.40p in FY24, a c 5.3% increase. JEL's proposed final dividend for the year was 12.0p, a 5.3% rise on the previous year, while maintaining broadly similar dividend cover of 1.9x in FY24 to the previous year. Net cash at FY24 stood at £15.0m after deducting long-term lease liabilities of £4.2m, up £0.8m on FY23 net cash. This was due to £6.8m in increased net cash flows from operating activities (primarily driven by favourable working capital movements), which were partially offset by increased investing activities of £5.0m.

Regulated returns on energy assets

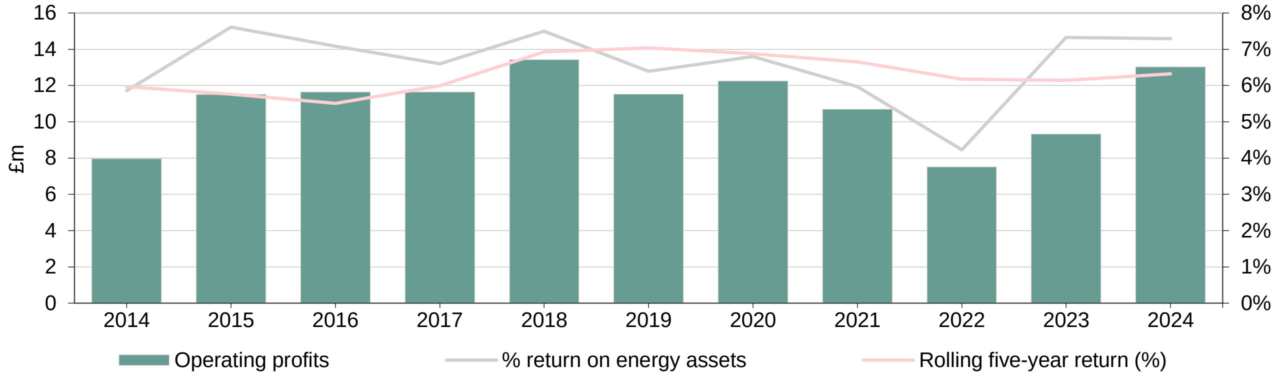
JEL operates on a self-regulated basis with two self-imposed regulatory targets:

- A return of 6–7% (pre-tax and interest) on its energy business (operating fixed assets net of customer contributions) on a rolling five-year basis.
- Ensuring its tariffs remain within ±10% of the EU-15 average (inclusive of all taxes).

JEL imports c 95% of its electricity from France through Électricité de France (EDF), with a 15-year agreement that runs until end-2027. This agreement underpins the company's earnings sensitivity and rate of return, as it is tethered to French wholesale electricity pricing, euro/sterling exchange rate fluctuations and regulatory tariff adjustment capabilities. JEL's strategic operational approach therefore centres on dynamic pricing to preserve its margin integrity, allowing the systematic pass-through of additional cost pressures to its customers. Continuous monitoring of the French wholesale electricity markets and currency movements remains essential for JEL, which mitigates these factors through favourable hedging strategies.

JEL's energy business recorded an operating profit of £13.0m, in line with the previous year (when including the £3.6m rebate not shown in Exhibit 2). Revenue grew by £11m following the tariff increase implemented on 1 January 2024. However, this was offset by an £11.0m increase in wholesale energy costs and operating costs. Operating costs increased year-on-year due to a combination of high inflation and continued investment in staff, processes and technology to further support growth. JEL's energy business delivered a return on assets of 7.3% in FY24 (FY23: 7.2%), equating to a five-year rolling average of 6.3% (FY23: 6.2%), within its target range of 6–7% (see Exhibit 2).

Exhibit 2: JEL's energy business, operating profit (left-hand side) and estimated return on assets



Source: JEL, Edison Investment Research. Note: 2023 excludes £3.6m rebate.

Wholesale electricity and supply security

JEL imports c 95% of Jersey's electricity requirements from Europe. It purchases power alongside Guernsey Electricity from EDF in France under a supply contract that ends in December 2027. The supply contract allows power prices to be fixed in euros. It combines a fixed-price component with the ability to price fix future purchases over a rolling three-year period based on a market-related mechanism linked to the European Energy Exchange.

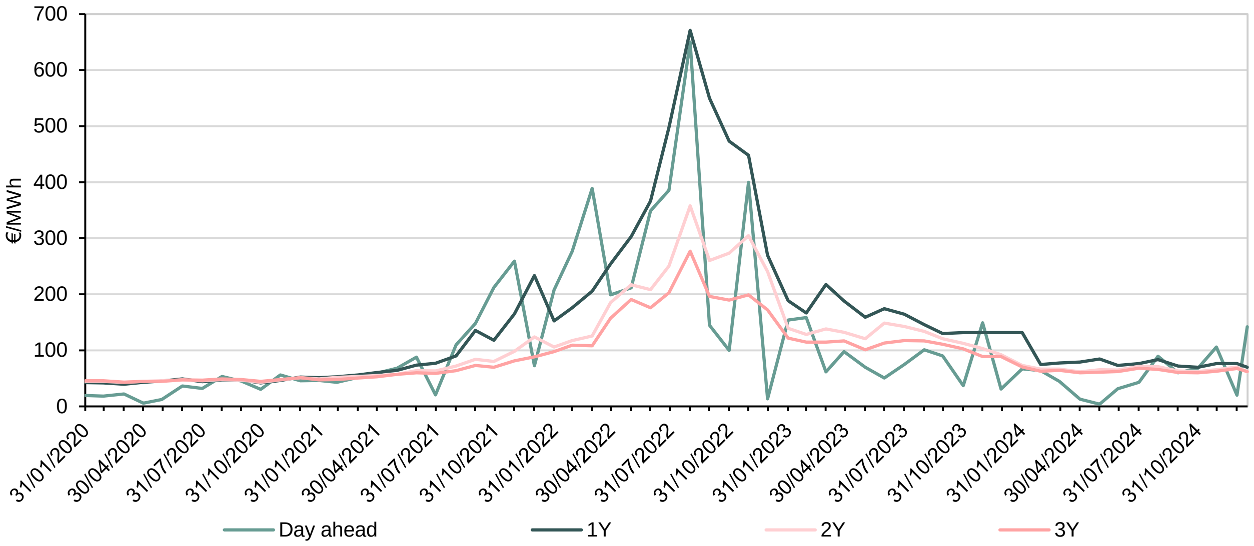
JEL aims to complete its post-2027 importation contract by the end of the financial year (FY25), ensuring it can secure competitive contractual arrangements from January 2028, with discussions progressing well. The company also continues to explore potential synergies associated with offshore wind post-2032.

French wholesale electricity prices continued to ease throughout 2024, as they did in 2023 (Exhibit 4), from the peaks seen in 2022 (Exhibit 3). The three-year forward prices ranged from €98/MWh to €288/MWh in 2022, €90/MWh to €120/MWh in 2023 and €60/MWh to €70/MWh in 2024. This demonstrates a clear easing and trend of declining prices in the French wholesale market. However, these prices do not come without volatility risk and remain elevated versus pre-COVID levels.

JEL has managed to significantly reduce its risk to further volatility in the wholesale market over the course, and to the end, of its current EDF contract (end-2027), with the company being effectively fully hedged at fixed prices (but not volumes) for 2025, and materially hedged across 2026 and 2027, both below current wholesale levels. We therefore expect there to be some upward pressure on retail prices in the coming years as older hedges expire. However, JEL's ability to continue hedging and fixing wholesale electricity prices below current forward curves in volatile market conditions, easing tariff prices on its customers, is testament to management's ability to manage its exposure to navigate its market.

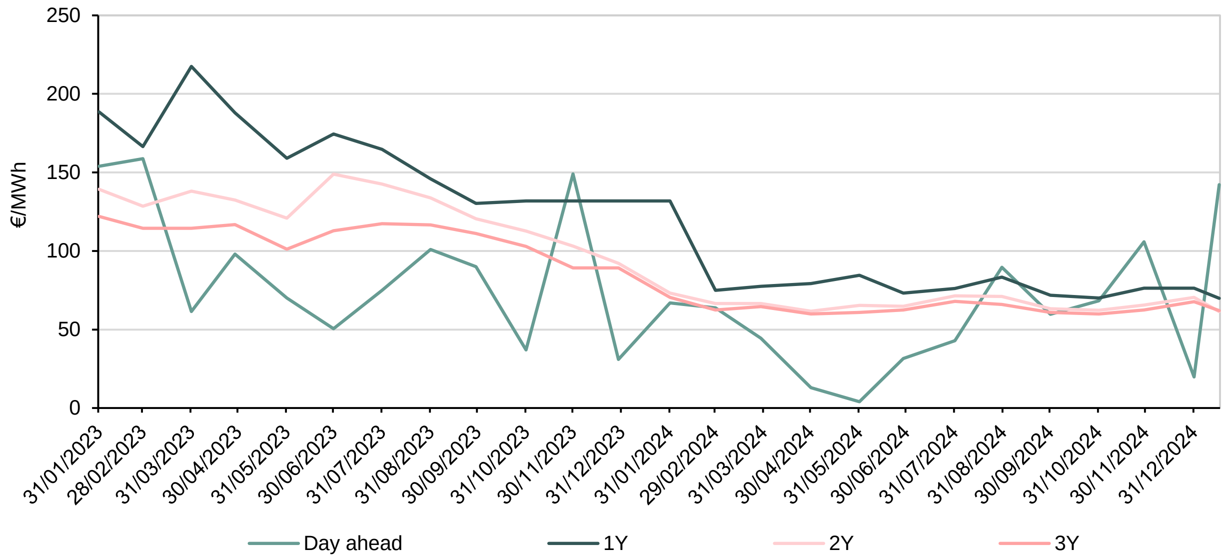
While long-term equilibrium prices remain uncertain, forward prices have trended towards the €60–70/MWh range seen in 2024. Our updated retail prices and imported energy cost models now forecast a regulated return on energy assets at the bottom of the 6–7% range. We estimate that tariff increases of around 2.5% (in real terms from 2024 averages) will be needed in FY26 and FY27 to maintain the five-year rolling return on capital within the regulated 6–7% target.

Exhibit 3: French wholesale electricity monthly forward curve 2020–24 (€/MWh)



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 4: French wholesale electricity monthly forward curve, 2023–24 (€/MWh)



Source: LSEG Data & Analytics, Edison Investment Research

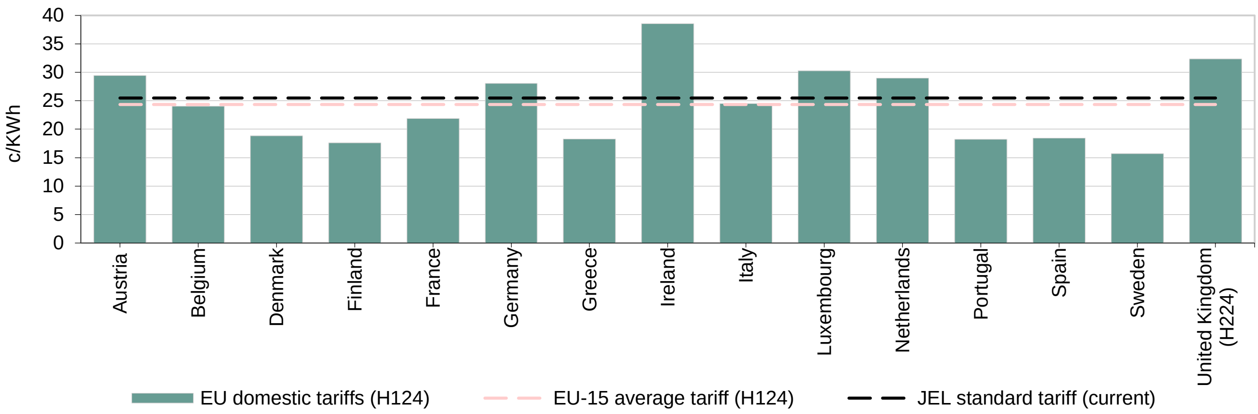
Electricity tariff prices and future assumptions

JEL aims to deliver secure, low-carbon electricity, while maintaining relatively stable and competitive tariffs. The company's energy requirements are effectively fully hedged for 2025, at fixed prices but not volumes. Management says the company is materially hedged for 2026 and 2027, at competitive prices. JEL's risk management policies covering power procurement and foreign exchange, combined with price protection measures negotiated with its supply contract with EDF, have enabled it to secure strong long-term hedges. These hedges have protected JEL's customers, providing some certainty in a relatively unstable and volatile market in recent years, saving them c £200m in costs since the Russian invasion of Ukraine.

JEL has not been immune to increasing prices, having implemented a 12% tariff increase at the start of 2024 and a subsequent 7.5% increase on 1 January 2025. It ensures that any increases in its prices remain manageable for its customers and that the standard domestic tariff continues to compare well with other jurisdictions (see Exhibit 5).

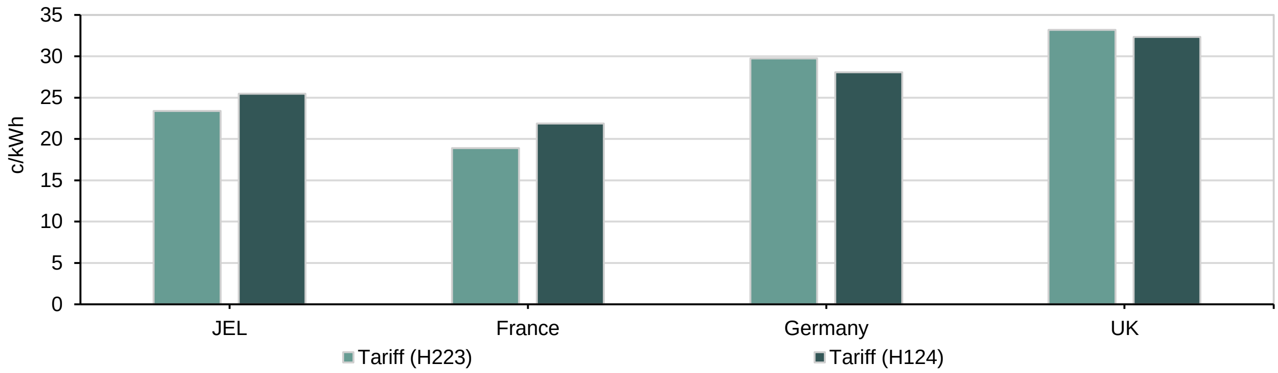
Exhibit 5 shows the EU-15 and EU-27 retail electricity prices in H124, using the latest available data from Eurostat (updated in January 2025). In our comparison, we use JEL's currently advertised standard domestic tariff price of 21.66p/kWh (25.48c/kW/h), which is marginally above the EU-15 price by c 4.7%.

Exhibit 5: JEL's standard domestic tariff (inclusive of taxes) versus EU-15 (c/kWh) for H124



Source: Edison Investment Research, Eurostat, JEL. Note: Based on latest available Eurostat data updated in January 2025. UK based on H224 data from GlobalPetrolPrices.

Exhibit 6: JEL standard tariff against France, Germany and the UK



Source: Edison Investment Research, Eurostat, JEL. Note: Based on latest available Eurostat data updated in January 2025. UK based on H224 data from GlobalPetrolPrices. It is worth noting that the French tariffs are subsidised by the French government.

Forward wholesale electricity prices in France have significantly lowered since the peak of 2022 (see Exhibit 3) but, due to JEL's active management in securing favourable price hedges through price fixes below the current price, these remain higher than JEL's current import costs. Additional costs will inevitably be passed on to its customer base. Although long-term wholesale pricing is inherently uncertain, we expect JEL to implement tariff rises of 2.5% (in real terms) to remain within its regulated return range of 6–7%. This increase would be lower than the tariff increases seen in 2024 and 2025 (so far) and would allow JEL to maintain competitive domestic tariff rates. Naturally, the evolution of forward price curves may affect these assumptions.

Divisions

Energy business performance

JEL's energy business saw revenue increase 11.4% y-o-y to £108.1m in FY24 (FY23: £97.1m) with operating profit of £13.0m, up from £9.3m in FY23 (excluding rebate; including rebate £12.9m). Unit sales of electricity for FY24 remained relatively flat at 609m, with increased sales offset by increased efficiency through JEL's network and general customer usage. Peak demand reached 163MW (similar to the peak in FY23 of 159MW). Of the required energy for the year, JEL imported 94.5% from France (FY23: 94.5%) and generated 0.2% (FY23: 0.4%) of electricity on the island from its solar PV arrays. The company purchased the remaining 5.3% (FY23: 5.1%) of its electricity from local generation and the Energy from Waste plant.

Performance of other businesses

Powerhouse.je: JEL's retail store business saw revenues fall 3.7% y-o-y in FY24. Profits also fell from £0.9m in FY23 to £0.6m in FY24, predominately due to loss in revenue following a slower-than-anticipated year and high inflation affecting storage costs.

Jersey Electricity Building Services (JEBS): During FY23, JEBS was affected by the Government Low Carbon Heating Incentive scheme, reducing the number of fuel switches in the year. During FY24, these began to return to normal levels with revenue increasing c 15% y-o-y to £4.8m and operating profit increasing 53% y-o-y to £0.25m.

Jersey Energy and its sister business unit, Channel Design Consultants in Guernsey, are now the largest mechanical, electrical and plumbing consultancy services in the Channel Islands. Projects completed by the unit in 2024 include:

- The Lime: the construction of 127 new flats and the refurbishment of 15 apartments.
- Telecoms Data Centre: ongoing major works utilising advanced 3D modelling techniques.
- Jersey Water Headquarters: design and site work at the new headquarters.
- Ports of Jersey: multiple projects, including significant plant upgrades at the airport and improvements in electrical infrastructure at the harbours.

Property: JEL's property portfolio includes a B&Q store, a medical centre and several other commercial spaces on Queen's Road (where JEL's Powerhouse retail administration office is located), as well as 29 private houses and flats rented on the open market. The property business's profit for FY24 was £0.9m (excluding the impact of revaluation), down £0.2m from FY23. This was due to a vacancy gap between March 2023 and April 2024 in one of JEL's properties.

Valuation

Using the average of a 10-year discounted cash flow (DCF) valuation of 655p and our sum-of-the-parts (SOTP) valuation of 762p, we value JEL at 708p/share, a slight increase from our previous valuation of 683p/share. This is due to our FY26 forecasts being higher than originally anticipated in our previous DCF model.

For our DCF valuation, we assume a weighted average cost of capital (WACC) of 6%, a cost of equity of 6.3% and a cost of debt of 4.5%. Our valuation assumes a terminal growth rate (TGR) of 2% (unchanged). We have marginally increased our long run EBITDA to revenue margin to 19% (previously 18%). JEL's historical long run EBITDA to revenue margin stands at c 18%, and the company generated margins of 21% and 22% in FY21 and FY22, respectively. The effect of this slight increase in long run EBITDA margin assumption is largely offset by the changed capex profile over the next five years. We outline the sensitivities of our DCF valuation to WACC and TGR assumptions in Exhibit 7.

Exhibit 7: Sensitivities of DCF valuation (p/share) to WACC and terminal growth rate

		WACC				
		4.0%	5.0%	6.0%	7.0%	8.0%
Terminal growth rate	0.0%	737	567	454	374	315
	0.5%	834	624	491	399	333
	1.0%	964	695	535	429	354
	1.5%	1,146	787	588	463	377
	2.0%	1,418	909	**655**	504	405
	2.5%	1,872	1,080	742	555	437

Source: Edison Investment Research

Our SOTP values JEL's regulatory (electricity) assets at £181m (slightly up from our last valuation of £176m), based on their book values, and assumes JEL earns a return on these assets equal to its cost of capital (unchanged from previously). We also value the property business (rental properties owned by JEL) using a balance sheet carrying value. For the other minor assets, we apply a 10x earning multiple.

Exhibit 8: SOTP

Components	£m	p/share
Electricity assets*	181	591
Property**	27	87
Other businesses	10	34
Enterprise value	**218**	**712**
Net cash/(debt)	15	49
Equity Value	**233**	**762**

Source: Edison Investment Research. Note. *Regulated assets. **Book value.

As a cross-check on our valuation, we compare JEL's P/E ratio to those of its appropriate utility-focused peers on energy grids and transmission, which include National Grid (UK), Red Eléctrica de España (Spain) and Terna Rete Elettrica Nazionale (Italy). This peer group currently trades at average forward FY25 and FY26 P/E multiples of 15.0x and 14.9x, respectively. Applying these to our forecast EPS for FY25 and FY26 of 27.6p and 38.0p would imply valuations of 414.9p and 568.7p, respectively. The FY25 multiple applied to our earnings estimate yields a value similar to the current stock price of 439p, although our estimates indicate that this will be a year of slight pullback in earnings, with FY26 seeing a return to growth (in other words, the stock is already pricing in this slight pullback). The FY26 multiple valuation of 568.7p is more in line with our DCF valuation of 655p. This cross-check supports our view that JEL remains attractively valued compared to the sector.

Financials

Profitability and returns: Our forecasts for FY25 and FY26 assume that JEL's core energy business delivers profitability within the range of its regulated targeted return of 6–7% on a five-year rolling basis. In FY24, JEL reported a return on energy assets of 7.3% (6.3% on a five-year rolling basis), flat compared to FY23. The company's operating profit for its energy business in FY24 was £13.0m (up from £9.3m in FY23, excluding the cost of the c £3.6m rebate from EDF). This increase was primarily driven by tariff rises in 2024.

We forecast a regulated return of 5.4% in FY25 (6.0% on a five-year rolling basis). Our FY25 estimate includes the 7.5% tariff increase JEL introduced on 1 January 2025. We forecast recurring energy operating profit of £10.2m for FY25 versus £13.0m in FY24. Our FY25 forecasts lagging behind the FY24 results is a reflection of proactive management from JEL in ensuring its customer tariff rises remain manageable throughout 2025. For FY25, JEL is effectively fully hedged at favourable fixed prices but not volumes (below the current spot price).

Through FY26–27, JEL has stated that it is materially hedged at fixed prices in its energy offtake agreement with EDF. We therefore forecast returns on its regulated energy asset base on a five-year rolling basis of 6.1% and 6.4% in FY26 and FY27, respectively.

Capex: JEL's capital expenditure for FY24 stood at £18.1m (up c 38% y-o-y from FY23). This increase was primarily due to JEL beginning one of its largest investment programmes (The Big Upgrade), which will see £120m invested in its electricity network over the next five years. The total capex profile over the next five years sums to £180m, with an additional £60m invested in increases to Jersey's supply security and further efforts on renewable energy through solar PV arrays (see more information on JEL's capex strategy at the start of this note). We therefore forecast capex spending to increase in FY25 and FY26 to c £33.1m and £37.5m, respectively.

Exhibit 9: Capital expenditure and depreciation

Capital expenditure and depreciation	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e
Capex (£m)	16.8	32.4	15.1	14.9	13.9	11.3	9.3	11.3	13.1	18.1	33.1	37.5
Depreciation (£m)	9.9	10.3	10.7	11.2	11.6	11.4	10.9	11.0	11.4	11.9	12.8	14.0
Capex/depreciation (x)	1.7	3.1	1.4	1.3	1.2	1.0	0.9	1.0	1.2	1.5	2.6	2.7

Source: JEL, Edison Investment Research

Pensions: JEL has a defined benefit pension scheme on its balance sheet, which was closed to new members in 2013. As at 30 September 2024 the scheme's surplus stood at £22.4m, net of deferred tax, compared to £20.4m at FY23. Discount rate assumptions heavily influence the calculations of liabilities within the scheme. During FY24, discount rates dropped from 5.4% in 2023 to 5.1% in 2024 with Jersey Retail Price Index (RPI) inflation remaining constant at 3.6%. Given the unique nature of the pension arrangement (a growing surplus but with cost-of-living adjustments made on an ex gratia basis and the risk of a growing interest environment), we exclude the pension surplus from our valuation of JEL's enterprise value. While the pension assets and liabilities both remain on JEL's balance sheet, in a high interest rate (and cost of living) environment, liabilities for further increases on an ex gratia payment basis cannot be excluded. Historically, we have included an allowance for some pension surplus in our valuation, but we believe the cautious approach is to exclude this surplus from our valuation at present.

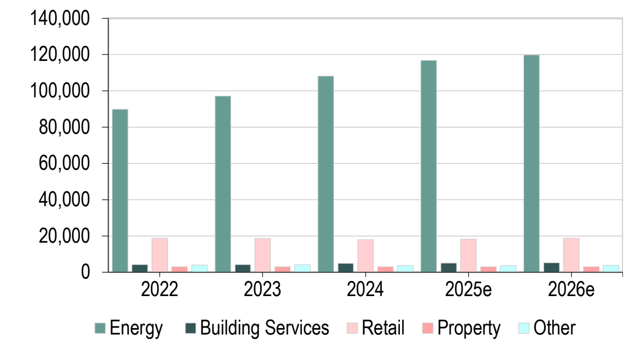
Tax: For tax payable (P&L), we assume an effective tax rate of 23% for FY25e and FY26e (FY24: 23%).

Dividends: Our forecasts assume increases of 5.2% and 5.4% in DPS for FY25 and FY26 (21.5p and 22.6p), respectively, with a cash impact from payments of £6.4m (FY24 final and FY25 interim) and £6.7m (FY25 final and FY26 interim). DPS is forecast to be covered by earnings at 1.3x and 1.7x in FY25 and FY26, respectively (having been covered at 2.0x in FY24).

Cash flow and balance sheet: In the absence of any repayment of outstanding long-term debt of £30m (which expires in 2034 and 2039) or a special dividend, we forecast that cash and cash equivalents will reduce in FY25 to £34.5m, from £49.2m in FY24. This is due to the company's increased capex profile. We also forecast FY26 cash and cash equivalents to further decrease to £16.8m, driven by the same increase in capex spending expected in FY25.

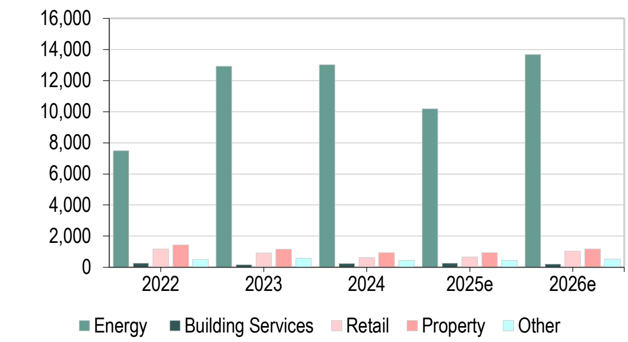
Net cash/(debt): Historically, JEL has had a steady net cash position at the end of each financial year (£14.2m at FY23 and £15.0m at FY24). However, we see this changing in the medium term given the company's significant increase in capex spend over the next five years. JEL had a net debt/EBITDA ratio of -0.5x in both FY23 and FY24, and we forecast this to reduce to -0.01xin FY25 and 0.6x in FY26, subsequently moving to a net debt position. These values are still well below the industry average for regulated utilities. We forecast that JEL will only need an additional £30m in debt to fund its increased capex profile of £180m over the next five years. JEL's gearing (on an equity basis) for FY24 was c 12% and, in our current forecasts, towards the back end of JEL's increased capex strategy period, remains below 25%. Again this is significantly below the sector average for regulated utilities, sitting at around 65%. Therefore, although JEL will likely have a net debt rather than a net cash position for the first time since 2019, we see no cause for concern given the company's low level of gearing compared to its peers.

Exhibit 10: Revenue forecast (£000s)



Source: JEL accounts, Edison Investment Research

Exhibit 11: EBIT forecast (£000s)



Source: JEL accounts, Edison Investment Research

Foreign currency hedging

As a substantial proportion of the cost base for JEL relates to the importation of power from Europe, which is contractually denominated in euros, the company enters forward currency contracts to reduce its exposure to FX changes and as a tool to aid tariff planning. Because of the hedging programme, the average euro/sterling rate underpinning JEL's electricity purchases during FY24 was €1.12/£. The spot rate at 30 September 2024 was €1.20/£.

Exhibit 12: Financial summary

£'000s	2022	2023	2024	2025e	2026e
Year end 30 September	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	117,421	128,671	135,742	144,812	148,747
Cost of Sales	(77,242)	(80,924)	(83,184)	(92,816)	(91,113)
Gross Profit	40,179	47,747	52,558	51,996	57,634
EBITDA	21,888	27,140	27,172	25,264	30,591
Operating profit (before excepts.)	10,886	15,737	15,259	12,508	16,621
Exceptionals	(1,020)	1,215	890	0	0
Other	1,020	(1,215)	(890)	0	0
Operating Profit	10,886	15,737	15,259	12,508	16,621
Net Interest	(1,305)	343	758	(1,457)	(1,447)
Profit Before Tax (norm)	10,601	14,865	15,127	11,051	15,174
Profit Before Tax (reported)	9,581	16,080	16,017	11,051	15,174
Tax	(2,135)	(3,432)	(3,427)	(2,504)	(3,438)
Profit After Tax (norm)	8,466	11,433	11,700	8,547	11,737
Profit After Tax (FRS 3)	7,446	12,648	12,590	8,547	11,737
Average Number of Shares Outstanding (m)	30.6	30.6	30.6	30.6	30.6
EPS - normalised (p)	27.2	36.8	37.9	27.6	38.0
EPS - normalised fully diluted (p)	27.2	36.8	37.9	27.6	38.0
EPS - reported (p)	23.8	40.8	40.8	27.6	38.0
Dividend per share (p)	18.4	19.4	20.4	21.5	22.6
Gross Margin (%)	34.2	37.1	38.7	35.9	38.7
EBITDA Margin (%)	18.6	21.1	20.0	17.4	20.6
Operating Margin (before GW and except.) (%)	9.3	12.2	11.2	8.6	11.2
BALANCE SHEET					
Fixed Assets	278,691	273,606	285,490	307,263	332,315
Intangible Assets	4,247	3,875	4,985	5,308	5,648
Tangible Assets	216,235	216,136	225,523	245,493	268,723
Investments	58,209	53,595	54,982	56,463	57,944
Current Assets	74,987	82,639	82,527	67,016	51,180
Stocks	7,173	9,187	8,435	8,252	9,087
Debtors	19,934	25,959	24,902	24,250	25,252
Cash	47,397	47,429	49,190	34,513	16,841
Other	483	64	0	0	0
Current Liabilities	(23,530)	(23,377)	(29,347)	(31,709)	(32,474)
Creditors	(23,461)	(23,296)	(29,041)	(31,403)	(32,168)
Short term borrowings	(69)	(81)	(306)	(306)	(306)
Long Term Liabilities	(90,774)	(91,324)	(93,709)	(96,273)	(98,362)
Long term borrowings	(33,251)	(33,193)	(33,878)	(33,878)	(33,878)
Other long term liabilities	(57,523)	(58,131)	(59,831)	(62,395)	(64,484)
Net Assets	239,374	241,544	244,961	246,297	252,659
CASH FLOW					
Operating Cash Flow	25,762	21,259	29,226	29,650	30,245
Net Interest	(1,355)	160	557	(1,457)	(1,447)
Tax	(3,020)	(2,089)	(3,301)	(3,414)	(2,210)
Capex	(11,320)	(13,138)	(18,089)	(33,072)	(37,540)
Acquisitions/disposals	7	3	34	0	0
Financing	(573)	(357)	(1,509)	0	0
Dividends	(5,453)	(5,760)	(6,067)	(6,383)	(6,720)
Net Cash Flow	4,048	78	851	(14,677)	(17,672)
Opening net debt/(cash)	(10,029)	(14,077)	(14,155)	(15,006)	(329)
HP finance leases initiated	1	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(14,077)	(14,155)	(15,006)	(329)	17,343

Source: Company accounts, Edison Investment Research

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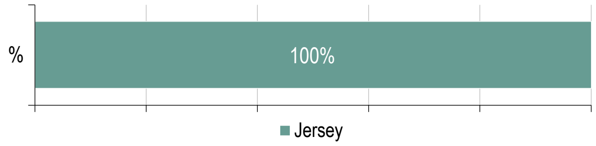
Revenue by geography



Management team

Chairman: Phil Austin

Phil Austin became chairman of JEL in February 2019 having served as a non-executive director since 2016. From 1997 to 2001 Mr Austin was deputy CEO of HSBC's offshore island business and in 2001 became founding CEO of Jersey Finance. In 2006 Mr Austin joined Equity Trust as CEO and since 2009 he has held a number of non-executive positions and is a non-executive of 3i Infrastructure, City Merchants High Yield Trust and Blackstone/GSO Loan Financing.

Chief executive: Chris Ambler

Chris Ambler has served as chief executive since 2008, having previously held senior positions in the utility and materials sectors. He is a chartered engineer with the Institution of Mechanical Engineers and holds an MBA from INSEAD. Mr Ambler is a non-executive director of Apax Global Alpha and Foresight Solar Fund.

Finance director: Lynne Fulton

Lynne Fulton joined JEL in spring 2023. Previously, she was the financial controller of United Utilities Group.

Principal shareholders	%
Huntress (CI) Nominees	17%
-	
Listed shares only* (JEL)	

*Explanatory note from page 54 of the FY23 reports and accounts – 62% of the ordinary share capital of the company is owned by the GoJ with the remaining 38% held by around 600 shareholders via a full listing on the London Stock Exchange. Of the holders of listed shares, Huntress (CI) Nominees owns 5.4m (46%) of JEL's 'A' ordinary shares representing 17% of its overall ordinary shares and around 5% of voting rights

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