EDISON

Jersey Electricity

Annual update

Modelling of 2030 net zero implications

Utilities

Jersey Electricity (JEL) has consistently delivered a 5% increase in its DPS and with dividend coverage above 2.0x EPS is well placed financially to produce future returns to shareholders. It has a strong balance sheet and its grid infrastructure is well invested. Electrification of Jersey's heating and transport systems to achieve the government's ambition of net zero carbon emissions by 2030 provides an opportunity for growth. Based on our detailed modelling, we estimate that full electrification of these two areas could increase electricity demand by 477GWh pa (or 477 million units of electricity), representing a 77% increase on the 619m units sold by JEL in FY20.

Year end	Revenue (£m)	EBIT* (£m)	EPS* (p)	DPS (p)	P/E (x)	FCF yield (%)
09/19	110.7	14.6	33.7	15.7	11.7	10
09/20	111.7	16.1	37.6	16.5	11.9	11
09/21e	115.4	16.4	38.4	17.3	14.1	7.7
09/22e	118.2	16.2	37.9	18.2	14.3	7.3

Note: *EBIT and EPS are normalised, excluding exceptional items, one-off items, revaluation gains/(losses) and share-based payments.

FY20 and H121: Solid results despite the pandemic

Operating profit increased by 7% to £16.1m in FY20 (excluding revaluation of investment properties and one-off items), driven by increases across all divisions, except Property, which was flat (excluding a one-off accelerated depreciation charge of £0.4m). H121 operating profit was £11.2m, 1% ahead of H120, which was mostly pre-pandemic. Strong cash generation of £10.6m resulted in net cash of £2.6m (including £2.9m lease liabilities) at end-FY20, which increased to £3.0m at end-H121, despite working capital outflows of £7m. We forecast continued strong free cash flow (FCF), with a FCF yield of over 7% in FY21 and FY22.

Net zero by 2030: JEL well placed to benefit

We expect the Government of Jersey (GoJ) to finalise its policy for reducing carbon emissions this year. We believe JEL is well placed to benefit from an increasing drive to electrify the island of Jersey as the government seeks to achieve carbon neutrality by 2030. We consider three decarbonisation scenarios in this report. Based on our least aggressive scenario (which roughly equates to net zero by 2050), which we use in our valuation, JEL could see electricity sales increase by 103m units (103GWh) pa by 2030. We believe this can be supplied through its well-invested existing grid infrastructure (with some enhancements to the on-island network), importing the electricity through the existing subsea cables.

Valuation: Significant upside to modest share price

JEL trades at a discount to our asset-based sum-of-the-parts and DCF valuations. Our overall valuation analysis (based on SOTP and DCF) suggests a share valuation of 785p. We cross-check this with a peer valuation of 794p. The current share price appears modest for a company that offers the prospect of above-inflation increases in DPS, possesses balance sheet flexibility and is well positioned to benefit from decarbonisation initiatives.

3 June 2021

Price	**540p**
Market cap	**£165m**
Net cash (£m) at end H121	3.0
Shares in issue	30.6m
Free float	38%
Code	JEL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	1.9	5.3	13.1
Rel (local)	(0.1)	(2.3)	(4.2)
52-week high/low	540.00p		452.00p

Business description

Jersey Electricity is the sole supplier of electricity to Jersey. It also operates businesses in retail, property and business services on the island.

Next events

FY21 preliminary results	15 December 2021

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Edison profile page

Jersey Electricity is a research client of Edison Investment Research Limited

Investment thesis

Electricity supplier to Jersey

JEL is the sole supplier of electricity to the island of Jersey. The electricity business is responsible for generating around 75% of group revenues and operating profits. JEL also operates a range of other businesses including property rental, retailing and business services. GoJ remains the largest shareholder, with 62% of the ordinary share capital and 86.4% of the voting rights.

Decarbonisation provides growth opportunities

We expect the GoJ to finalise its policy for reducing carbon emissions this year. Policy initiatives to reduce emissions from road transport and heating are likely to be based on the greater use of electricity and could give JEL the opportunity to grow its unit sales. Greater clarity on policy initiatives could provide impetus to JEL's share price; our indicative valuation of 785p, which takes account of decarbonisation scenarios, is 45% above JEL's share price of 540p. We model potential additional electricity demand from three net zero emissions pathways, taking into account heating, road transport, energy efficiency measures and new residential properties. The pathways roughly equate to: 1) net zero by 2050; 2) net zero by 2040; and 3) net zero by 2030. We adopt scenario 1) in our valuation, as the least aggressive scenario, until the GoJ has set out its policy plan and ratified its net zero target.

Exhibit 1: Incremental electricity demand pa by 2030 (GWh or m units)

Scenario	Heating	Road transport	Energy efficiency	New builds	Total	% increase on JEL's FY20 electricity units sold
1) Progressive decarbonisation	64	29	-19	29	103	17%
2) Rapid decarbonisation	121	59	-28	29	180	29%
3) Net zero by 2030	242	235	-57	29	448	72%

Source: Edison Investment Research

Under scenario 3) net zero by 2030, annual electricity demand increases by 448GWh (or 448m units) by 2030; this includes 477GWh pa (or 477m units) from the electrification of heating and road transport.

Financials: Stable returns, strong cash flow and DPS growth

- Profits and returns: we forecast that JEL maintains profitability within its targeted range of 6–7% (pre-tax) return on regulated assets.
- The strong performance by JEL's Retail business in FY20 and a turnaround of its Building Services division have demonstrated that JEL's non-energy businesses can contribute solid earnings, which should feed through to cash flow.
- Balance sheet: JEL's balance sheet is in a net cash position of £3.0m (end-H121) and we expect further strong cash flow in the coming years; we forecast a FCF yield of over 7% in FY21 and FY22. JEL's balance sheet capacity would allow for debt redemption or special dividend payments but our forecasts do not assume either.
- DPS: we believe that, despite flat profits, JEL can continue to deliver 5% pa increments to its annual DPS payments, with coverage (from earnings) remaining above 2.0x over the next three years; even projecting out to 2030, it remains above 1.5x, with the dividend yield increasing to 5% by then.

Sensitivities: Net zero pathway, pricing, and security of supply

- **Net zero pathway:** JEL's strategic investment plans are dependent on the net zero emissions pathway the GoJ decides to ratify. If net zero by 2030 is decided, significant strategic investment would be required over an accelerated timeframe. This may lead to reduced returns on investment unless tariffs are increased.
- **Pricing:** JEL imports c 95% of its electricity from France through Électricité de France (EDF); a sustained upward movement in French wholesale prices and/or deterioration in the FX rate would require JEL to raise tariffs to preserve its rate of return. Increasing prices could elicit regulatory scrutiny. JEL has a longstanding relationship with EDF. Its existing 15-year agreement runs until the end of FY27. JEL does not expect any change to its arrangement with EDF as a result of Brexit.
- **Regulation:** JEL's dominant energy business is self-regulated. An imposed reduction in returns by an independent regulatory body of 1.0pp would reduce operating profits by £1.8m pa.
- **Interconnector failure:** in the absence of cheap imports, in the case of an interconnector failure, JEL would be forced to rely on more expensive and more environmentally polluting on-island generation.
- **Minority:** GoJ owns 86.4% of the voting rights of the company. Other shareholders continue to bear the risk associated with their position as minority shareholders.

Stable profits, strong cash flow and a solid platform

Provider of secure, affordable and sustainable electricity

JEL's core objective remains to provide its customers with secure, affordable and sustainable electricity. However, in 2019, the company reset its corporate vision to one that 'enables life's essentials and inspires a zero-carbon future'. In this report we analyse JEL's efforts to fulfil its core objective of secure affordable and sustainable electricity, review the initiatives it has taken that are designed to help the island achieve a zero-carbon future and analyse the opportunities that could arise from Jersey's adoption of a strategy of carbon neutrality by 2030.

FY20 and H120 results were solid despite the pandemic

Operating profit increased by 7% to £16.1m in FY20 (excluding revaluation of investment properties and one-offs) driven by increases across all divisions, except Property, which was flat (excluding a one-off accelerated depreciation charge of £0.4m). Retail was particularly impressive with a 31% increase to £1.2m, driven by strong consumer appetite for electrical goods and assisted by a shift towards an online model during lockdown. Restructuring of Building Services saw a loss of £0.1m in FY19 turn into a profit of £0.2m. We believe Retail can continue to deliver solid earnings in the coming years; H121 operating profit (for retail) was £1.0m, 23% above H120 (£0.8m), which was largely pre-pandemic. In Energy, units sold were resilient for FY20; having initially fallen 13% following the start of lockdown, they largely recovered to end the year down just 1% (versus FY19) at 619m, and although planned price increases were delayed by six months, like-for-like margins (excluding a £750k rebate for repair of subsea cables in FY19) increased to 14.4% from 13.2% resulting in a 6% increase in operating profit to £12.3m. Units sold in H121 were 375m, 1% above H120 (371m), and H121 operating profit (in Energy) was £9.2m, 2% ahead of H120 (£9.0m). Strong cash generation of £10.6m (up from £9.2m in FY19, due to lower capex) resulted in net cash of £2.6m at the end of FY20, including lease liabilities of £2.9m (IFRS 16). This increased to £3.0m at the end of H121 (including lease liabilities of £2.9m), despite working capital outflows of £7m. We forecast continued strong cash flow, with a FCF yield above 7% in FY21 and FY22; our forecast capex is slightly below £14m for both years (including £4m for a new transformer at Queen's Road).

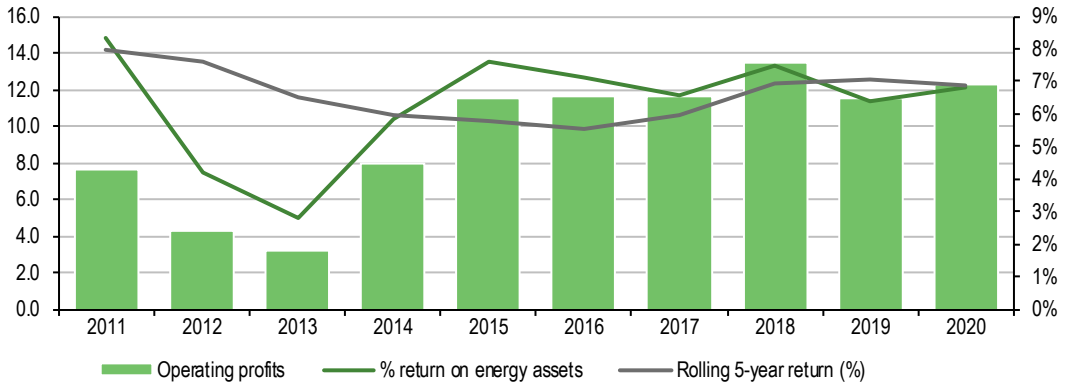
The forecast FCF yield drops to 4–5% in FY23 and FY24 due to an estimated £12m additional capex for a new generator, then increases to c 6% out to FY30. With cash and cash equivalents of £35.8m at the end of H121 (net cash of £3.0m versus regulatory assets of c £180m), JEL is well placed to either redeem the outstanding long-term debt on its balance sheet (£30m) or pay a special dividend.

Regulation

In our last outlook note on JEL (March 2019), we outlined in some detail the potential changes being considered for the regulatory system. Up to this point there have been no concrete proposals for change and no move on the part of the GoJ to amend the Electricity Law of 1937, which it remains committed to reviewing. JEL therefore continues to operate on a self-regulated basis, aiming to meet two self-imposed regulatory targets. That is, JEL seeks a return of 6–7% (pre-tax) on its energy business (net of customer contributions) on a rolling five-year basis and ensure its tariffs remain within ±10% of the EU-15 average (inclusive of all taxes).

In FY20, we estimate that return on assets was 6.8% (up from 6.4% in FY19), which is within JEL's targeted range and the current rolling five-year average rate of return remains slightly below 7%. The five-year return figure reflects a period of steady profitability following the volatility caused by interconnector failure earlier in the decade.

Exhibit 2: JEL energy business – operating profit (LHS, £m) and estimated return on assets



Source: Edison Investment Research, JEL

In comparison, Ofwat used a rate of return (pre-tax nominal) of c 5.0% for the UK water companies in its latest Periodic Review of the sector (PR19). Ofwat's allowed rates of return are below those used by JEL, although we would caution against an over-simplistic comparison of headline rates of return. The method for calculating invested regulatory capital can differ significantly between industries and, in addition, the UK water sector benefits from an annual inflation-linked increase in its regulatory capital value; JEL does not. However, by way of illustration a 1.5pp (from 6.5% to 5.0%) reduction in allowed pre-tax returns would result a reduction in operating profit of c £2.7m pa (FY20 recurring operating profit £16.1m, excluding revaluation of investment properties).

Customer service performance remains strong

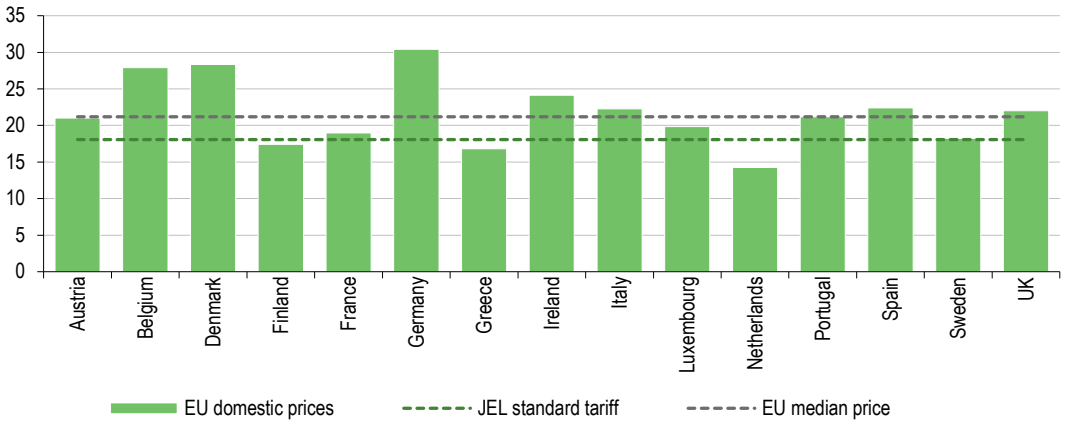
Although JEL remains a self-regulated entity, delivery of satisfactory standards of service for customers remains another key benchmark. In 2019, for the first time, JEL took part in the UK Customer Satisfaction Index, gaining a rating of 78% and outperforming other UK utilities (31 in total), which averaged 72%. In 2020, JEL, achieved 77% above the average for utilities of 73%. This was a top quartile performance. According to previous surveys of customer opinion carried out for JEL, the three most important elements of customer service are cost and price stability, security of supply and environmental performance. We examine JEL's track record in each of these three areas below. In particular, we review in greater detail JEL's environmental performance in light of

the impact it has had in reducing the island's carbon emissions, the declaration by the GoJ of a climate emergency (May 2019) and the business opportunities that might arise from further decarbonisation.

Pricing

In light of the pandemic, JEL postponed its planned 2.5% tariff rise from April 2020 to October 2020. This is only the third rise in six years. It reflected cost pressures faced by Jersey relating to the import of electricity from France during a period of weakness in the pound relative to the euro. Although JEL hedges its electricity purchase costs over a rolling three-year period, sustained weakness in sterling will eventually flow through to its customer tariffs. We examine the impact of movements in foreign exchange in a later section of the note.

Exhibit 3: JEL's standard domestic tariff (inclusive of taxes) versus EU-15 (c/kWh)



Source: Edison Investment Research, Eurostat, JEL

Security of supply

JEL imports 95% of its electricity from EDF (through undersea cabling to mainland France). In the absence of significant on-island power generation, JEL is heavily reliant on this supply. France has set a legally binding target of net zero by 2050 and will itself see a significant increase in electricity demand due to the electrification of road transport in the coming years, although it hopes to offset a significant portion of this by reducing electricity consumption by 40%. France is one of Europe's largest electricity exporters. In 2019, it produced 571TWh and exported 58TWh (c 10% of production), according to data from the International Energy Agency. Based on data from the *National Low Carbon Strategy*, published by France's Ministère de la Transition Ecologique et Solidaire in March 2020, France's total projected energy requirement in 2050 is 1,060TWh, of which 55% is expected to be met from carbon-free electricity, equating to an electricity requirement of 583TWh. In order to meet this and maintain its current level of exports, we estimate that France will need to increase electricity production by 70TWh pa and also replace 51TWh pa of existing fossil fuel generation capacity (coal, oil and gas). This equates to required new electricity production of 121TWh, pa which is a 21% increase in existing production. This estimate does not take into account any underutilised capacity implicit in the 2019 production figure nor does it account for the replacement of any ageing non-fossil fuel power generation sources that reach the end of their useful economic life before 2050.

JEL's metric for measuring security of supply is customer minutes lost (CML). In FY20, according to JEL, only five minutes were lost, an improvement from six minutes in FY19 and FY18, and Exhibit 4 shows the performance over the last 10 years (average 42 minutes, or 14 excluding FY12). With the exception of a spike in minutes lost in 2012 due to the failure of the interconnector, the extent of

interruptions has remained low (five-year average of 10 minutes). In comparison, in 2017/18 UK distributors averaged 78 CML.

Exhibit 4: Annual customer minutes lost 2011 to 2020 (for JEL)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Customer minutes lost	45	293	13	10	7	24	8	6	6	5

Source: Edison Investment Research, JEL

The success in restricting CML can be attributed to the efficacy of JEL's capital expenditure programme, which has entailed average annual capital expenditure of c £20m (depreciation c £9.5m per year over the same period) over the last 10 years, including strengthening and upgrading of the interconnectors with France. Total interconnector capacity totals 202MW versus a record peak demand figure of 178MW (March 2018) (peak of 141MW in FY20). Most recently JEL brought into service (December 2018) the St Helier West Primary Substation (£17m cost), which relieves pressure on supplies to St Helier and is designed to 'future proof' the network.

Interconnector capacity of 202MW allows up to 1,770GWh (or 1,770m units) of peak demand electricity. Based on this, combined with the historical peak demand to annual sales ratio (see table below), we estimate that JEL could increase imported electricity to up to around 800GWh (or 800m units) without overstretching the system at peak demand; 800GWh implies a ratio of peak demand to annual sales of 2.2. This compares to forecast units sold in 2030 under scenario 1) of 722m units and scenario 2) of 799m units.

Exhibit 5: Peak demand to annual sales ratio for 2011–20 (for JEL)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Peak demand capacity (MW)	154	161	155	139	148	149	154	178	150	141
Date	N/A	02-Feb	28-Feb	03-Feb	05-Feb	19-Jan	26-Jan	01-Mar	15-Dec	04-Dec
Peak demand (GWh)	1,349	1,410	1,358	1,218	1,296	1,305	1,349	1,559	1,314	1,235
Annual sales (GWh)	651	637	663	621	627	625	621	634	627	619
Ratio of peak demand to annual sales	2.1x	2.2x	2.0x	2.0x	2.1x	2.1x	2.2x	2.5x	2.1x	2.0x

Source: Edison Investment Research, JEL

Only in FY19, which was an outlier, was the ratio higher (at 2.5); using this ratio instead implies potential imported electricity of just 720GWh (or 720m units).

French wholesale pricing

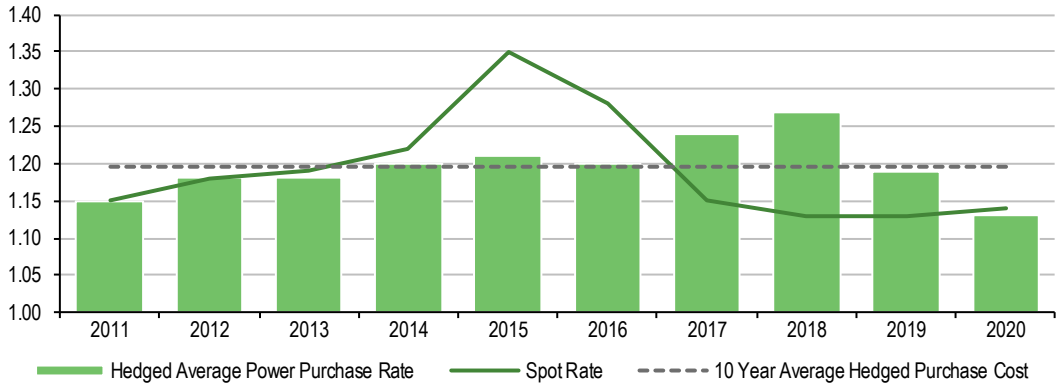
As we have written previously, wholesale electricity purchase costs represent c 50% of the total cost of electricity to the consumer. These purchase costs, in turn, are dictated by the prevailing wholesale price and the foreign exchange cost of the transaction (which we examine separately in the next section). Higher wholesale prices clearly increase costs for JEL, although under the current regulatory framework the company is allowed to pass on higher costs to maintain its rate of return. In broad terms, all else being equal, a 10% increase in French wholesale prices would require, in theory, a 5% increase in end-user tariffs. While JEL is free to raise prices to maintain its returns, sharp and/or prolonged increases in the tariffs run the risk of inviting additional political scrutiny. In FY20, the French year-ahead baseload price averaged €46/MWh (range €37–52/MWh), notably lower than FY19, where it averaged €62/MWh (range €49–62/MWh). So far in FY21 (from 1 October 2020 to 16 April 2021), the price (year-ahead baseload) has averaged €49/MWh (range €41–58/MWh); however, we note that it has been trending upwards since November and is currently at the top end of the range (€58/MWh). This opposes the same period a year earlier where the year ahead price trended downwards from November to April. JEL has a longstanding relationship with EDF. Its existing 15-year agreement runs until end of FY27. JEL does not expect any change to its arrangement with EDF as a result of Brexit.

Foreign exchange

In addition to the risks associated with the movement in the French wholesale price, JEL must also manage the currency risk related to the purchase of its power (in euros) but with a sales price denominated in sterling. To manage this, JEL enters into forward currency contracts (on a rolling three-year basis) to reduce exposure and assist in tariff planning. In broad terms, over the last 10 years, JEL has matched the effective exchange rate of its underlying electricity purchases with the average prevailing spot rate (both average c 1.20).

However, as can be seen in 2017 and 2018 (Exhibit 6), JEL was able to lock in average power purchase exchange rates significantly above the spot rate thanks to the prevailing strength of sterling in 2015 and 2016 (mostly before Brexit-related currency weakness). However, in 2019 the hedging position began to unwind, with the rate associated with the purchase of electricity declining from the relatively favourable 1.27 in 2018 to 1.17 at the end of 2019. The current spot rate of around 1.15x is slightly below the 10-year average. All else being equal, a strengthening of sterling would reduce energy purchase costs for JEL. In its 2020 annual report, JEL stated it was 'materially', but not fully, hedged for the period 2021–23.

Exhibit 6: Hedged average power purchase rate versus average spot rate 2011–20 (€/£)



Source: Edison Investment Research, JEL

Environmental performance and future targets

As we have noted in previous reports, JEL currently imports around 95% (FY19: 94%) of its electricity through three undersea supply cables from France. Although the majority of the imported power is sourced from nuclear stations, a third of the imports are from renewable hydro sources. The mix of nuclear and hydro provides JEL (and the island) with very low carbon electricity, and at a carbon intensity of 24g CO_2e/kWh it is c 10% of the carbon intensity of the emissions of the UK's electricity system as a whole (233g CO_2e/kWh) based on figures produced by the Department for Business, Energy and Industrial Strategy. The carbon intensity of JEL's electricity is also c 90% below that of local gas and heating oil and the company has played a key role in reducing the greenhouse gas emissions of the island (by 47% between 1990 and 2017).

Beyond the importation of low carbon electricity, JEL continues with other environmental initiatives. During FY20 JEL installed Jersey's first Solar Hub, combining a 53kWp solar photovoltaic (PV) array and two 22kW electric vehicle (EV) charge points, which followed the installation (in partnership with SunWorks) of a photovoltaic array at La Collette (81kWp estimated to generate c 90,000kWh pa) in FY19. JEL has appointed a dedicated solar project officer to its Energy Solutions team to seek out suitable sites for solar PV installations and has said it is happy to enter long-term power purchase agreements (PPAs) with local developers to help facilitate the financing of projects. In FY20, JEL announced 25-year lease agreements to install two solar arrays (at separate locations), with combined capacity of 805kWp (estimated to generate over 750,000kWh pa). Promotion of energy efficiency also forms part of JEL's environmental strategy and a key part

of this is the island-wide roll out of smart meters, which JEL completed during FY20; around 51,000 smart meters have now been installed in Jersey. The roll-out of 4,500 pay-as-you-go (PAYG) meters is imminent. JEL has also entered a tree-planting project with Jersey Water (a National Trust initiative), planting 6,000 trees on a 20-acre site in the Mourier Valley.

Decarbonisation of Jersey: A growth opportunity

In May 2019, the GoJ declared a climate emergency and stated an aim of making Jersey carbon neutral by 2030. This would be world-leading if ratified; most governments that currently have proposed or approved legislation are targeting net zero by 2050 (see Exhibit 7 below). Only six jurisdictions currently have targets in law (Sweden, UK, France, Denmark, New Zealand and Hungary) and six (including the European Union) have proposed legislation. Of these, only Sweden has a target sooner than 2050; it is targeting 2045. Net zero by 2050 is needed to keep global warming within two degrees (and with a 50% chance of below 1.5 degrees).

In March 2021, the GoJ announced that an Advisory Panel for the Citizens' Assembly on Climate Change has been appointed. The role of the panel will be to provide an independent and balanced oversight of the information being presented to participants of the Citizens' Assembly, helping to inform policy decisions and ultimately net zero targets ratified by GoJ.

A significant part of Jersey's decarbonisation strategy will be based on the electrification of heating systems and road transport. These two sources of emissions account for about two-thirds of total emissions in Jersey. Currently, 50% of residential properties use non-electric heating, mostly fuel oil (80%) but also liquified petroleum gas (LPG) (20%), and under 1% of vehicles are electric.

Based on our detailed modelling, we estimate that full electrification of these two areas could increase electricity demand by 477GWh (or 477m units of electricity), representing a 77% increase on the 619m units sold by JEL in 2020.

In our modelling, we also take into account the impact of energy efficiency measures and increased demand from new housing builds. We consider three scenarios, defined as follows:

- **Progressive decarbonisation:** based mostly on the extrapolation of current trends, with some government intervention. Its trajectory is roughly consistent with net zero by 2050, assuming additional government intervention post-2030 to accelerate the pace of uptake of EVs and assist with heating conversions.
- **Rapid decarbonisation:** would need government intervention; its trajectory is roughly consistent with net zero in 2040 assuming additional government incentives (post-2030) for residents to significantly accelerate the scrapping of their internal combustion engine (ICE) vehicles in favour of EVs.
- **Net zero by 2030:** would need significant government intervention. Our modelling for this scenario assumes full decarbonisation, such that no carbon offsetting is required. In a report by Oxera, prepared for GoJ, dated January 2020, *Quantitative analysis of carbon neutrality by 2030*, it is estimated that the cost to the GoJ of achieving net zero by 2030 for heating and road transport would be in the range of £60–360m.

JEL's well-invested grid infrastructure allows the initial ramp up in electricity demand due to decarbonisation to be met through increased imported units from mainland France. Our modelling results, which consider the period to 2030, show that under scenarios 1) and 2), JEL is unlikely to require any significant strategic investment; we estimate that the incremental increase in demand from these scenarios (103m units and 180m units respectively) could be achieved by importing higher levels of electricity through the three existing subsea cables, along with some on-island grid enhancements (although meeting peak demand will become increasingly tight towards 2030 under scenario 2 – see discussion above in the security of supply section). Any further increase in

demand would require significant investment in any combination of grid, on-island renewables, energy storage and/or subsea cables.

For full decarbonisation, an offshore wind farm (we estimate 200MW would suffice) might be preferable as it would help improve security of supply. The timing of investment is important as the economics for offshore wind farms continue to improve. They also take significant time to plan and build. Furthermore, due to the intermittency of wind energy, investment in large-scale energy storage may also be necessary; an informed and considered decision would be important here as pioneering technologies continue to advance.

Exhibit 7: Incremental electricity demand pa by 2030 (in GWh, or million units)

Scenario	Heating	Road transport	Energy efficiency	New builds	Total	% increase on JEL's FY20 electricity units sold
1) Progressive decarbonisation	64	29	-19	29	103	17%
2) Rapid decarbonisation	121	59	-28	29	180	29%
3) Net zero by 2030	242	235	-57	29	448	72%

Source: Edison Investment Research estimates

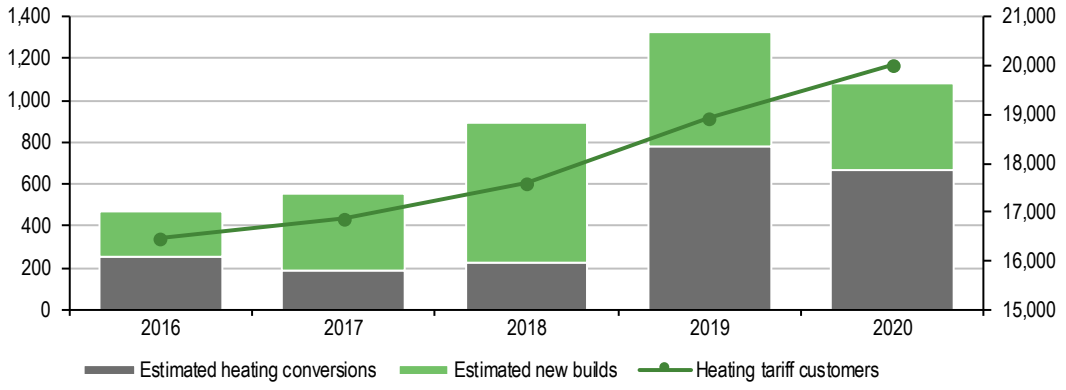
Heating

Heating accounts for about a third of emissions in Jersey, arising from residential, commercial and government buildings being heated with fuel oil or LPG. *Quantitative analysis of carbon neutrality by 2030* estimates the cost of net-zero measures for the GoJ in heating to be in the range of £51–159m. As well as retrofitting, this also includes insulation (which we address in the energy efficiency section below) and carbon offset costs.

Currently, 50% of residential properties have electric heating systems, comprising mostly (95%) electric boilers and panels plus storage heaters; under 5% are heat pumps. Heat pumps are approximately three times more energy efficient than electric boilers, so we expect to see an increase in penetration as properties convert to electric heating; we assume 40% of conversions have heat pumps under our net zero by 2030 scenario.

In recent years JEL has actively sought to convert islanders that use other forms of heating to electricity via its expanded Energy Solution team. In July 2018, to augment the rate of switching, JEL opened a Smarter Living hub and customer information centre within its Powerhouse retail outlet. We estimate new electric heating conversions during the year from the change in the number of customers using JEL's discounted heating tariff adjusted for the number of new builds (estimated from JEL's increase in new supply customers), which we assume all use electric heating from 2019; and 50% have electric heating in 2016–17; and 75% in 2018.

Exhibit 8: Estimated number of heating conversions and new builds (LHS) and number of customers using JELs heating tariff (RHS)



Source: Edison Investment Research, JEL

In 2020, 1,084 customers were added to JEL's heating tariff, which, adjusted for estimated new builds of 419, suggests there were an estimated 665 heating conversions; JEL's Energy Solutions team retrofitted 224 of these homes to electric heating (186 in 2019). The decrease in customers switching to JEL's heating tariff compared to 2019 (1,323 customers) is mostly due to restrictions relating to the pandemic.

In order to achieve net zero by 2030 (without carbon offsets), the number of heating conversions would need to increase to more than 3,000 per year by 2025, including larger commercial properties, which would be significantly more time consuming. We estimate that this far exceeds the current on-island technical resource, thus heating engineers would need to be recruited from outside of Jersey and housed. We assume that the average electricity consumption per conversion is 9,500kWh, which is higher than current existing residential heating-related electricity consumption of 8,000kWh due to commercial properties being retrofitted.

In our progressive decarbonisation scenario, we assume that the number of conversions increases to 750 in 2021 and then steadily to 1,000 per year by 2025 and remains flat over the rest of the period (to 2030). Furthermore, we assume that the additions are all residential and therefore significantly less complex than the larger commercial properties. We assume that the average electricity consumption per conversion steadily decreases from 8,000kWh (or units) in 2020 to 6,000kWh by 2030 due to a higher proportion of heat pumps being installed, particularly in larger residential properties.

For our rapid decarbonisation scenario, we assume a steady increase to 1,500 conversions per year by 2025 onwards, with some of these relating to commercial properties; at this run rate, heating would be decarbonised (without carbon offsets) by around 2040. We assume that the average electricity consumption per conversion steadily increases from 8,000kWh (or 8,000 units) in 2020 to 9,500kWh by 2025 and beyond due increasingly large commercial properties offsetting an increasing proportion of heat pumps.

EVs

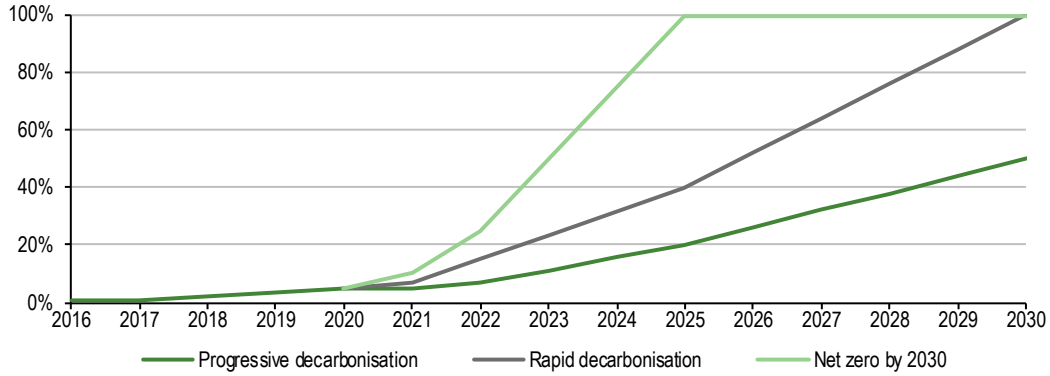
Road transport accounts for about a third of emissions in Jersey. The GoJ is considering a range of policy initiatives that could be introduced to reduce road transport emissions, including escalating fuel taxes to discourage petrol and diesel, providing financial incentives for the purchase of EVs, or imposing a ban on the registration of new or second-hand petrol or diesel vehicles. Depending on the scale and the rapidity of the measures taken, *Quantitative analysis of carbon neutrality by 2030* estimates the cost of net-zero measures for the GoJ in road transport to be in the range of £6–200m. While the GoJ decides which potential policy initiatives to adopt, JEL continues to invest in extending and improving Jersey's EV charging infrastructure, with 53 public EV charge points installed by the end of 2020.

At the end of 2020, there were under 1,000 pure EVs on Jersey, representing under 1% of the estimated licensed vehicle base ('parc') of roughly 113,000 vehicles. We estimate a licensed vehicle base from the registered vehicle base in Jersey of roughly 125,000 vehicles, by assuming that 10% of registered vehicles are not in use. This is consistent with data from the UK Department for Transport, which implies that between 8% and 12% of vehicles were declared off road (SORN) on an annual basis over the period 2015–20. Based on our estimates, new EV sales as a percentage of total new vehicle sales has been increasing annually from under 1% in 2016 (based on 56 EVs sold) to 5% in 2020 (based on 263 EVs sold).

For our net zero by 2030 (without carbon offsets) scenario, new EV sales would need to increase from 5% of new vehicle sales in 2020 to 100% by 2025 and beyond. At the current vehicle

'scrappage' rate (including removals and exports as well as scrapped vehicles[1]) of roughly 5% of parc per year, even with new EV sales as a percentage of total vehicle sales at 100% from 2025, EVs would still only account for roughly 40% of the total parc by 2030 (we assume the parc increases by 0.3% pa over 2020–30); thus significant carbon offset would be required for road transport to be effectively net zero. In order to achieve net zero by 2030 (without carbon offsets), scrappage needs to be increased to 14% of total parc per year by 2025 and beyond; this would lead to only pure EVs on the road by 2030.

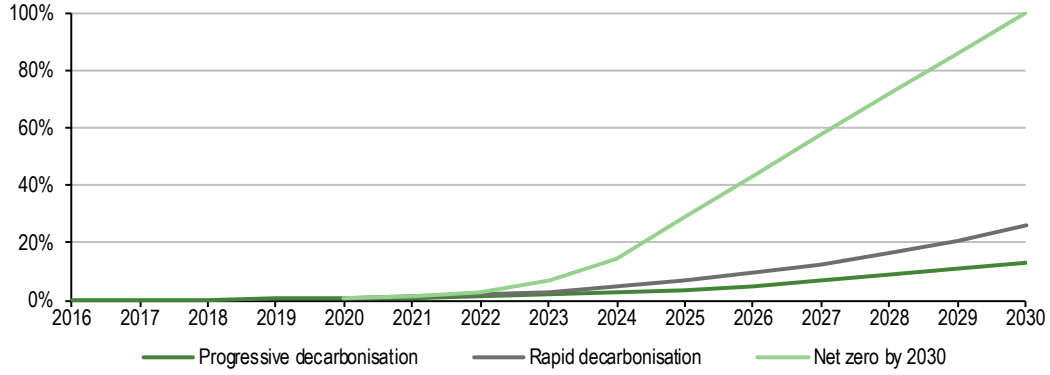
Exhibit 9: New EV sales as a percentage of new vehicle sales



Source: Edison Investment Research

For our progressive decarbonisation scenario, we assume new EV sales increase from 5% of new vehicle sales in 2020 to 20% by 2025 and then steadily to 50% by 2030, and that scrappage remains at the current estimated rate of 5% of parc. This would lead to EVs accounting for 13% of the total parc by 2030. For our rapid decarbonisation scenario, we assume new EV sales increase from 5% of new vehicle sales in 2020 to 40% by 2025 and then steadily to 100% by 2030, and that scrappage remains at the current estimated rate of 5% of parc. This would lead to EVs accounting for 26% of the total parc by 2030. As a comparison, the UK has banned the sale of ICE vehicles from 2030 and hybrid vehicles from 2035. Jersey has not yet adopted a similar approach.

Exhibit 10: Total EVs as a percentage of total parc



Source: Edison Investment Research

In order to calculate incremental energy requirement from each scenario we make the following assumptions: a private to commercial vehicle ratio 53:47 (based on 2011 census data from GoJ); private vehicle annual mileage of 4,000; commercial vehicle annual mileage of 13,000; private EV efficiency of 250Wh/mile; commercial EV efficiency of 300Wh/mile; and efficiency improvement of 1% pa.

[1] Based on 2017 data from the GoJ website

Energy efficiency

A report by Ricardo-AEA, prepared for the GoJ, dated October 2015, *Developing an approach to Domestic Energy Efficiency Retrofit in Jersey*, quantifies a number of energy saving measures for residential properties in Jersey. It considers nearly 28,000 properties in the 'able-to-pay' segment. Exhibit 11 below shows an estimated energy efficiency saving applicable to a number of the properties.

Exhibit 11: Potential energy efficiency savings for select residential properties in Jersey

	% energy efficiency saving	No of properties in Ricardo 2015
Cavity wall	15%	5,028
Solid wall	25%	5,102
Loft insulation	20%	1,963
Windows upgrade	12%	3,094
Improved heating controls	8%	2,763

Source: Edison Investment Research, using data from Ricardo-AEA's 2015 report

We use this data to estimate a total potential energy efficiency saving for all residential and commercial properties in Jersey (nearly 52,000), allowing for new builds and energy efficiency improvements made to properties since Ricardo-AEA's 2015 report. We estimate that total potential energy efficiency savings of 57GWh (or 57m units) could be made. This excludes retrofitting non-electric heating systems with heat pumps, which is considered in the heating section above. We adopt the full 57m units in our net zero by 2030 scenario (which assumes no carbon offsetting). In our progressive decarbonisation scenario, we assume 19m units (a third of 57m) and 38m units for our rapid decarbonisation scenario, equating to run rates for net zero for these scenarios of 2050 and 2040 respectively.

New builds

We estimate annual new build properties in Jersey from increases in JELs' supply customer base. We assume most of them are residential, with an average annual energy bill of 8,000 units pre-2018 (assumes 50% have electric heating), increasing to 12,000 units in 2020 (assumes 100% have electric heating). This implies that new builds have added 1–7m units annually to electricity demand over the last 10 years. Over our forecast period (2021–30), we assume that JEL's supply customer base increases by 0.5% pa, equating to an average of 263 new build properties added per year. We assume that the average annual energy bill (electricity + heating) reduces (linearly) to 10,000 units by 2030, in line with our assumptions for residential heating conversions (which reduce from 8,000 units in 2020 to 6,000 units in 2030).

Exhibit 12: Estimated new build properties and corresponding contribution to electricity demand (in m units)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021–30e
JEL supply customers	47,990	48,452	48,623	48,941	49,320	49,532	49,894	50,561	51,103	51,522	
% y-o-y increase	1.0%	1.0%	0.4%	0.7%	0.8%	0.4%	0.7%	1.3%	1.1%	0.8%	0.5% pa
Estimated new builds	496	462	171	318	379	212	362	667	542	419	263 pa*
Estimated new demand	4	4	1	3	3	2	3	7	7	5	3 pa

Source: Edison Investment Research. Note: *On average.

Board, management and shareholder structure

The most recent appointments to the board are: Phil Austin MBE, who succeeded Geoffrey Grime as chairman of JEL in February 2019; Peter Simon, who joined JEL as a non-executive director also in February 2019; and Amanda Astall, who joined as a non-executive director in June 2020. In total the board has eight members, the chairman, five other non-executive directors and two executives, Chris Ambler (CEO since 2008) and Martin Magee (CFO since 2002).

JEL's three-tiered shareholding structure, including ordinary, 'A' shares and preference shares, remained unchanged in FY20. The ordinary shares (19m in issue) entitle the holder to one vote for every 20 shares held, whereas the 'A' Shares carry the right to one vote for every 100 shares held. Due to this shareholding structure, SoJ continues to hold all the ordinary shares and owns 62% of the total capital but possesses 86.4% of the total voting rights.

Risks and sensitivities

Below we list the principal sensitivities determining JEL's profitability:

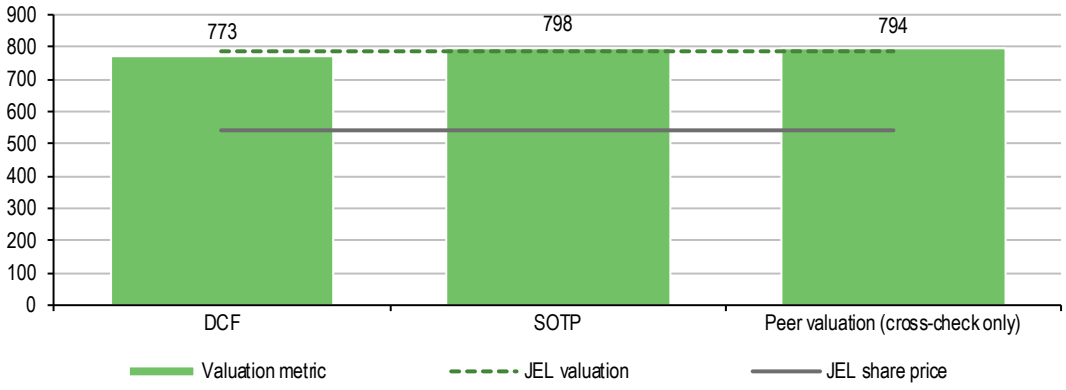
- Regulation: JEL's dominant energy business (c 80% of operating profits) is self-regulated. As we have written, in recent years there has been much discussion of the efficacy of the current regulatory system, although no firm proposals for amending the system have been made so quantifying the extent of any potential change remains difficult. However, by way of illustration, a 1.5% reduction (from 6.5% to 5.0%) in pre-tax returns would lead to a reduction in operating profit of c £2.7m (FY20 recurring operating profit was £16m).
- Security of supply: JEL imports 95% of its electricity from EDF (through undersea cabling to mainland France). In the absence of significant on-island power generation, JEL is heavily reliant on this supply. Furthermore, we estimate (earlier in this report) that France requires 121TWh pa of new electricity production capability by 2050 in order to meet its legally binding net zero by 2050 target (and still be able to fulfil the same level of electricity exports); this equates to a 21% increase in existing production. JEL has a longstanding relationship with EDF that spans more than 35 years. Its existing 15-year agreement runs until the end of FY27. JEL does not anticipate any issues in negotiating another long-term contract, nor does it expect any change to its arrangement with EDF as a result of Brexit. We note that during a recent dispute relating to French fishing vessels in Jersey waters, the French maritime minister made reference, within the French parliament, to implementing retaliatory measures, including the possibility of cutting off electricity supplies to Jersey. JEL considers this a political issue to be resolved between the governments. As noted above, JEL has a strong relationship with EDF (as supplier) and also RTE (as network operator). Both RTE and EDF have confirmed JEL's existing supply arrangements are unlikely to be affected.
- Interconnector failure has the potential to cause reputational damage (in the event of interruption to supply) and financial loss. In the absence of cheap imports, JEL would be forced to rely on more expensive and more environmentally polluting on-island generation. Although JEL would have the capacity, at least under the current regulatory system, to recoup the extra cost of generation through the tariff system, the potential adverse publicity might prevent JEL from raising tariffs to the full extent required to preserve the rate of return in any one year as happened in the period 2012 to 2013.
- Wholesale pricing: although JEL regularly hedges the purchase cost of electricity, an upward movement in French wholesale prices would place pressure on JEL to raise tariffs to preserve its rate of return. An upward revision of tariffs could invite additional political and regulatory scrutiny and would undermine JEL's relative position in its benchmarking of international tariffs.
- FX: as we have demonstrated, the value of the pound relative to the euro remains important for JEL, independent of the level of French wholesale pricing in euros, as it imports over 90% of its electricity from France.
- Minority: there has been no significant change in the shareholding structure of the company in recent years and, as we have already noted, the SoJ owns 86.4% of the voting rights of the company. Other shareholders continue to bear the risk associated with their position as minority shareholders.

Valuation

We have enhanced our traditional valuation approach for JEL by including a 10-year discounted cash flow (DCF) analysis, which better considers the longer-term impact of the energy transition. We place less emphasis on the peer valuation, using it only as a cross-check.

Overall, the valuation, which is an average of our DCF and sum-of-the-parts (SOTP) valuations, is 785p (rounded), which is up 225p (40%) versus our last published valuation (in March 2019). The uplift in valuation can be attributed to net debt turning to a net cash position, higher pension benefit, higher valuation of the non-energy businesses (in the SOTP), a higher DCF (better taking into account the longer-term impact of the energy transition, and using a lower WACC) and updated forecasts.

Exhibit 13: JEL valuation metrics (p/share)



Source: Edison Investment Research estimates, Refinitiv (16 April 2021) (for peer valuation)

Sum of the parts

We estimate regulatory assets to be in the region of c £180m (and assume JEL earns a return on these assets equal to its cost of capital on these assets). We value the property business (rental properties owned by JEL) at balance sheet valuation and the other businesses (retail, business services, construction) at 10x prospective EBITDA (FTSE All-Share: 10x). Overall, the valuation has risen 206p since we published in March 2019. The principal factors behind the increase in valuation are estimated asset base +1p, Other businesses (including property business) +41p, net debt (improvement) +57p and other adjustments +108p (mostly due to the exclusion of deferred tax liability and derivatives, which on reflection we do believe should be adjusted in valuing the ongoing businesses).

Exhibit 14: SOTP valuation

Components	£m	p/share	Comments
Energy business	180	588	Estimated net regulatory assets
Property business	22	71	Balance sheet valuation
Other businesses	25	81	Multiple of 10x EBITDA
Enterprise value	**227**	**739**	
Net cash/(debt)	3	10	
Other adjustments	15	49	Financial assets, pension surplus, preference shares, minority interest
Total equity value	**244**	**798**	

Source: Edison Investment Research

DCF

We update our DCF methodology to better reflect the longer-term energy transition; we adopt a 10-year cash flow forecast period followed by terminal value. Our valuation for JEL is based on the progressive decarbonisation scenario. We also run our DCF model for the rapid decarbonisation

scenario as a sense check. We do not run the DCF model for the net zero by 2030 scenario due to the likely need for investment in on-island generation capacity, which may alter JEL's risk profile, especially if any investment decisions or partnerships are made within a sub-optimal timeframe.

Key assumptions and drivers for our cash flow model are as follows:

- Incremental electricity demand forecasts for each scenario (see decarbonisation section).
- Electricity prices adjusted to ensure pre-tax return on capital for the energy business stays at 6.5%.
- No significant change in wholesale electricity prices beyond inflationary increases.
- For the progressive and rapid decarbonisation scenarios, we assume growth capex (in real terms) of £2m pa when annual units sold increase above 650m (but below 675m); £2.5m pa when annual units sold increase above 675m (but below 700m); £3m pa when annual units sold increase above 700m units. This equates to total growth capex (real) of £18m for the progressive decarbonisation scenario (incurred between 2024 and 2030) and total growth capex (real) £27.5m for the rapid decarbonisation scenario (incurred between 2023 and 2030)
- For other capex assumptions, see the financials section below.
- WACC of 6.0%, based on a beta of 0.9x, cost of equity of 6.3% and cost of debt of 4.5% (with total debt at 15% of capital).
- We model terminal value separately for the energy and non-energy businesses. To reflect the constraint that pre-tax capital remains flat at 6.5%, we keep the terminal value constant for the energy business, setting it using terminal growth rate (TGR) = 0% (and capex/depreciation = 1.0x). The non-energy businesses have no such constraints, thus the terminal value increases as TGR increases.

Exhibit 15: Sensitivities of DCF valuation to WACC and terminal growth rates

Share valuation (p)		WACC						
		5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
Terminal growth rate	0.0%	881	801	734	677	629	587	551
	0.5%	893	810	741	683	634	591	554
	1.0%	909	821	750	690	639	595	558
	1.5%	928	835	760	698	645	600	562
	2.0%	954	853	**773**	708	653	606	566
	2.5%	990	878	790	720	662	614	572
	3.0%	1,044	912	713	736	674	622	579

Enterprise valuation at TGR = 2% (£m)	WACC						
	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
Energy business	193	174	**158**	144	133	123	114
Non-Energy business	81	70	**61**	55	49	45	41
Total	274	244	**219**	199	182	168	156

Source: Edison Investment Research

In our valuation, we adopt the progressive decarbonisation scenario (which equates roughly to net zero by 2050) as this is the most likely scenario in the absence of a clear policy plan and legally binding targets from the GoJ. Exhibit 15 above shows sensitivities for the progressive decarbonisation scenario flexed for WACC and TGR. Our share valuation of 773p, which is based on a WACC of 6% and a TGR of 2%, includes an energy business valuation of £158m and other businesses valuation of £61m. The energy business valuation is lower than the £180m in our SOTP valuation, which was estimated using a regulated assets approach. The difference between the two valuations can be explained by converting the pre-tax return of 6.5% (targeted on the regulatory assets) to a post-tax return of 5.2% (adjusting for a 20% tax rate) and using this as the WACC in the DCF valuation; 5.0% WACC = £193m for the energy business; 5.5% WACC = £174m (Exhibit 15 above). Other businesses are valued 33% higher using our DCF methodology compared with the SOTP (£61m versus £46m); this is due to a combination of the DCF reflecting longer-term

growth prospects (not always captured using peer multiples) along with a relatively low WACC of 6%.

The difference in the overall DCF valuation between the progressive decarbonisation and rapid decarbonisation scenarios is minimal; at 2.0% TGR (used in our valuation), the progressive decarbonisation share valuation is 773p versus 770p for the rapid decarbonisation scenario (see Exhibit 16 below). The difference relates to the higher upfront (over 2023–30) capex in the energy business required for the rapid decarbonisation scenario.

Exhibit 16: DCF valuation for progressive decarbonisation and rapid decarbonisation scenarios

	Terminal growth rate						
Share valuation (p)	**0.0%**	**0.5%**	**1.0%**	**1.5%**	**2.0%**	**2.5%**	**3.0%**
Progressive decarbonisation	734	741	750	760	773	790	813
Rapid decarbonisation	730	738	746	757	770	786	809

Source: Edison Investment Research.

Peer valuation

We use peer valuation as a cross-check, rather than driving our valuation, due to a lack of comparable companies to JEL. In our approach, we use P/E and EV/EBITDA multiples, which imply a valuation of 794p per share (see Exhibit 17 below). This is above our DCF and SOTP based valuation for JEL of 785p per share. We note that the P/E is distorted by significantly higher net debt to equity ratios among JEL's peer group; EV/EBITDA removes this distortion, so is arguably a better metric. EV/EBITDA alone implies a valuation of 1,021p per share (average of 1,045p and 997p), which is considerably above our valuation. National Grid, Terna and Red Eléctrica, which are electricity grid operators, are the most comparable companies to JEL; we use an average of multiples from these companies in our peer valuation.

Exhibit 17: Peer group multiple analysis

	Currency	Price	EV/EBITDA (x) 2021	EV/EBITDA (x) 2022	P/E (x) 2021	P/E (x) 2022
UK regulated utilities						
National Grid	p	902	11.7	10.3	17.6	15.3
Pennon	p	1026	12.9	12.6	33.9	33.6
Severn Trent	p	2431	14.2	13.2	23.2	19.8
United Utilities	p	957	14.4	14.0	19.9	20.1
Median			**13.6**	**12.9**	**21.6**	**20.0**
European regulated utilities						
Terna	€	6.14	11.6	11.6	16.0	16.4
Snam	€	4.68	12.8	12.7	13.6	13.9
Enagas	€	18.35	10.0	10.2	12.3	12.5
Red Eléctrica	€	15.02	9.2	9.1	12.0	11.9
Median			**10.8**	**10.9**	**12.9**	**13.2**
Multiple used in peer valuation*			**10.8**	**10.3**	**15.2**	**14.5**
JEL earnings:						
EBITDA (£m)			27.9	27.8		
Clean EPS (p)					38.4	37.1
Implied valuation of JEL shares (p)			**1,045**	**997**	**583**	**550**
Average of the above (p)		**794**				

Source: Edison Investment Research, Refinitiv. Note: Priced at 16 April 2021. *Based on average of National Grid, Terna and Red Eléctrica.

Financials

Profitability and returns: we base our forecasts for FY21 and FY22 on the assumption that the core energy business delivers profitability in the range of the targeted return. In FY20, return on

electricity assets was 6.8%. We forecast return increases to 6.9% in FY21, and then taper it down (linearly) to 6.5% for FY24 and onwards.

Capex: JEL has spent c £20m pa on average over the last 10 years, but with the substantial investment programme largely complete, we expect capex to remain below this for the period 2021–30. We forecast capex of £13.7m in FY21 and £13.9m in FY22 (FY20: £11.3m). These figures include £2m pa in relation to a new transformer at Queen's Road and compare to an estimated depreciation charge of c £11.4m for FY21 and £11.5m for FY22 (FY20: £11.4m). In FY23 and FY24, we forecast capex of £17.9m and £20.3m respectively, which includes £6m pa for a new gas turbine (total estimated cost of £12m). We estimate growth capex (real) of £16m (in total) spread over 2025–30 for the progressive decarbonisation scenario, which when combined with maintenance capex and adjusted by inflation gives estimated capex (nominal) of £14.7m in FY25 increasing to £17.9m by FY30.

Exhibit 18: JEL capex and depreciation 2011–20 (£m)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capex	15.0	18.8	26.9	32.5	16.8	32.4	15.1	14.9	13.9	11.3
Depreciation	8.2	8.3	8.2	8.3	9.9	10.3	10.7	11.2	11.6	11.4
Capex/depreciation	1.8x	2.3x	3.3x	3.9x	1.7x	3.1x	1.4x	1.3x	1.2x	1.0x

Source: Edison Investment Research, using JEL data

Pensions: given the pensions surplus, we assume that payments are c £2.0m less than the charge to the P&L until 2029 when a balancing mismatch of £1.1m is assumed, such that the pension surplus of £17m (end of H121) is unwound by FY30. Although we include the impact of this on the cash flow statement, we exclude these adjustments from FCF in our DCF valuation, and instead adjust for the pension surplus in our enterprise value to equity value adjustment.

Tax: for tax payable (P&L) we assume a tax rate of 20.8% for FY21 and FY22 (FY20: 20.8%); for tax paid we make approximate adjustments for accelerated capital allowances and assume payment in the following year.

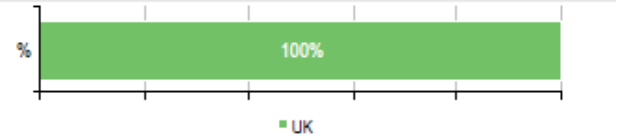
Dividends: our forecasts assume a 5% per year increase in the DPS for FY21 and FY22, with a cash impact from payments of £5.1m in FY21 (FY20 dividend) and £5.3m in FY22 (FY21 dividend). The DPS is forecast to be well covered by earnings: 2.2x in FY21 and 2.1x in FY22.

Cash flow and balance sheet: in the absence of any repayment of outstanding long-term debt or a special dividend, we forecast that net cash increases to £10.3m in FY21 and £17.0m in FY22, from £2.6m in FY20 (all figures include £2.9m relating to lease liabilities, under IFRS 16).

Exhibit 19: Financial summary

£'000s	2018	2019	2020	2021e	2022e
Year end 30 September	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	106,641	110,709	111,747	115,388	118,237
Cost of Sales	(65,877)	(69,282)	(69,695)	(72,421)	(75,812)
Gross Profit	40,764	41,427	42,052	42,967	42,426
EBITDA	27,626	26,247	27,516	27,902	27,780
Operating Profit (before except.)	16,384	14,643	16,092	16,442	16,235
Exceptionals	310	1,439	115	0	0
Other	0	0	0	0	0
Operating Profit	16,694	16,082	16,207	16,442	16,235
Net Interest	(1,349)	(1,262)	(1,377)	(1,430)	(1,416)
Profit Before Tax (norm)	15,035	13,381	14,715	15,013	14,819
Profit Before Tax (reported)	15,345	13,320	14,830	15,013	14,819
Tax	(3,152)	(2,969)	(3,090)	(3,128)	(3,088)
Profit After Tax (norm)	11,883	10,412	11,625	11,885	11,731
Profit After Tax (FRS 3)	12,193	10,351	11,740	11,885	11,731
Average Number of Shares Outstanding (m)	30.6	30.6	30.6	30.6	30.6
EPS - normalised (p)	38.5	33.7	37.6	38.4	37.9
EPS - normalised and fully diluted (p)	38.5	33.7	37.6	38.4	37.9
EPS - reported (p)	39.5	38.4	37.9	38.4	37.9
Dividend per share (p)	14.9	15.7	16.5	17.3	18.2
Gross Margin (%)	38.2	37.4	37.6	37.2	35.9
EBITDA Margin (%)	25.9	23.7	24.6	24.2	23.5
Operating Margin (before GW and except.) (%)	15.4	13.2	14.4	14.2	13.7
BALANCE SHEET					
Fixed Assets	242,490	249,982	250,966	251,158	251,498
Intangible Assets	938	683	3,378	3,152	2,976
Tangible Assets	215,153	217,046	217,936	220,354	222,870
Investments	26,399	32,253	29,652	27,652	25,652
Current Assets	40,367	49,125	59,153	67,598	74,891
Stocks	7,092	6,018	6,028	6,224	6,378
Debtors	15,202	17,995	16,645	17,187	17,612
Cash	15,735	24,915	35,520	43,226	49,941
Other	2,338	197	960	960	960
Current Liabilities	(17,703)	(20,332)	(21,143)	(21,825)	(22,200)
Creditors	(17,703)	(20,332)	(21,078)	(21,760)	(22,135)
Short term borrowings	0	0	(65)	(65)	(65)
Long Term Liabilities	(76,425)	(79,231)	(83,037)	(83,777)	(84,356)
Long term borrowings	(30,000)	(30,000)	(32,879)	(32,879)	(32,879)
Other long term liabilities	(46,425)	(49,231)	(50,158)	(50,898)	(51,477)
Net Assets	188,729	199,544	205,939	213,154	219,833
CASH FLOW					
Operating Cash Flow	29,393	31,401	31,019	30,585	30,156
Net Interest	(1,340)	(1,253)	(1,237)	(1,430)	(1,416)
Tax	(1,045)	(2,300)	(2,714)	(2,742)	(2,831)
Capex	(14,873)	(13,940)	(11,259)	(13,652)	(13,885)
Acquisitions/disposals	1	2	24	0	0
Financing	(33)	(59)	(311)	0	0
Dividends	(4,444)	(4,671)	(4,917)	(5,056)	(5,308)
Net Cash Flow	7,659	9,180	10,605	7,706	6,715
Opening net debt/(cash)	21,924	14,265	5,085	(2,576)	(10,282)
HP finance leases initiated	0	0	(2,944)	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	14,265	5,085	(2,576)	(10,282)	(16,997)

Source: Jersey Electricity, Edison Investment Research

Contact details	Revenue by geography
The Powerhouse PO Box 45 Queen's Road St Helier Jersey JE4 8NY + 44 (0) 1534 505460 www.jec.co.uk	

Management team

Chairman: Phil Austin (from February 2019)	Chief executive: Chris Ambler
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.	Mr 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: Martin Magee	
Mr Magee is a qualified accountant and previously worked for Stakis and Scottish Power in a variety of senior financial roles. He joined JEL as finance director in 2002 and has served in this role since that date. Martin Magee is also non-executive chairman of the Aberdeen Standard Capital Offshore Strategy Fund.	

Principal shareholders – listed shares only* (JEL)	(%)
Ravenscroft	17.0
Finda Oy	4.2
Milton Asset Management	1.2

*Explanatory note taken from page 47 of the FY20 Reports & Accounts – 62% of the ordinary share capital of the Company is owned by the Government of Jersey 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 Limited owns 5.2m (45%) of our 'A' Ordinary shares representing 17% of our overall Ordinary shares and around 5% of voting rights.

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