



June 3, 2019

**CURRENT PRICE:** \$86.02  
**RATING:** BUY  
**PRICE TARGET:** \$88  
**CURRENT YIELD:** 4.3%

### EPS Estimates

	DEC 18A	DEC 18E
1Q	\$1.28	\$1.24A
2Q	\$0.93	\$1.44
3Q	\$1.65	\$1.75
4Q	\$0.84	\$0.67
	<b>\$4.72</b>	<b>\$5.10</b>

### Trading Data

52-WEEK PRICE RANGE: \$91.67 - \$71.94  
 SHARES OUTSTANDING: 727(M)  
 MARKET CAP: \$62,537(M)  
 AVG. DAILY TRADING VOLUME: 3.4(M)  
 S&P 500: 2,744

### Valuation Data

BOOK VALUE: \$61.80  
 PRICE TO BOOK: 1.39x  
 DIVIDEND: \$3.71

## Duke Energy (NYSE: DUK)

### 1Q19 Earnings Report

### Highlights

- Adjusted diluted 1Q19 earnings of \$1.24/share vs. \$1.28/share
- Earnings negatively impacted by mild weather & share dilution
- Provided 2019 adjusted earnings guidance to \$4.80-\$5.20/share
- Share price helped by recent stock market volatility
- Maintain BUY rating & \$88 price target

### Investment Thesis

Wall Street expects the US economy to experience GDP growth of about 2%-4% over the next year or two. While we find this difficult to predict, we believe investors should consider investing in sectors where revenue streams are fairly predictable, with attractive dividend yields, low valuations, and earnings growth potential when the US economy emerges from this malaise. One attractive sector is the utility group and one company in this area we like Duke Energy. This utility pays an attractive 4.3% dividend yield, has both dividend and earnings growth potential going forward. DUK is rated BUY and our price target is \$88/share.

### Company Summary

Duke Energy, headquartered in Charlotte NC, is one of the largest energy providers in the US. The company is comprised of four business units; Electric Utilities/Infrastructure, Gas Utilities/Infrastructure, Commercial Renewables, and Other. DUK provides electricity and natural gas to its customers, serving approximately 7.2 million electric customers in NC, SC, FL, IN, OH, and KY. DUK operates 150,900 miles of electric distribution lines and a 20,900-mile transmission system. The company has approximately 55,000 megawatts (MW) of electrical generating capacity with its plants fueled by coal, oil, natural gas, hydroelectric, renewables, and nuclear. DUK with Progress Energy in 2014 creating one of the largest electric utilities in the US and recently acquired Piedmont Natural Gas.

*For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.*

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## Recent Earnings

DUK reported 1Q19 diluted earnings of \$1.24/share vs. \$0.88/share during 1Q18. Results for 1Q18 were impacted by a \$66 million after-tax charge related to a rate case order concerning Duke Energy Progress NC. When comparing the two quarters, operating revenues rose to \$6.16 billion from \$6.14 billion and operating expenses increased to \$4.79 billion from \$4.78 billion. Operating expenses were higher due to increases in D&A (+\$122 million), property/other taxes (+\$27 million), and cost of natural gas (+\$14 million). These were partly offset by lower fuel used in electric generation/purchased power (-\$67 million) and operations/maintenance (-\$45 million). Adjusted earnings decreased to \$1.24/share from \$1.28/share due to unfavorable 1Q19 weather and share dilution, which were partly offset by growth from investments at the electric and gas utilities. Adjusted segment income was higher in the Gas Utilities/Infrastructure and Commercial Renewables units, while declining in the Electric Utilities/Infrastructure unit.

## SEGMENT RESULTS

**ELECTRIC UTILITIES/INFRASTRUCTURE:** Reported 1Q19 adjusted segment income of \$750 million vs. \$816 million during 1Q18, equating to a decline of approximately \$0.10/share. This resulted from mild winter weather and lower retail volumes. The negative earnings comparison was due to unfavorable weather (-\$0.07/share), share dilution (-\$0.04/share), lower volumes (-\$0.03/share), higher interest expense (-\$0.03/share), and increased D&A on a larger asset base (-\$0.03/share). Partly offsetting these were larger contributions from base rate changes (+\$0.09/share).

Total electric sales decreased 4.5% to 60,694 GWh from 63,529 GWh. The decline was caused by lower sales from Wholesale/Other (-11.6%), Residential (-6.4%), General Services (-2.8%), and Industrial (-0.5%). These were partially countered by higher results from Unbilled Sales (+28.7%) and Other Energy Sales (+3.6%).

**GAS UTILITIES/INFRASTRUCTURE:** 1Q19 adjusted segment income improved to \$221 million from \$158 million during 1Q18. These results added \$0.10/share to 1Q19 results as the higher earnings came from midstream investments (+\$0.08/share) generated by a “true-up” adjustment related to income tax recognition for equity method investments.

Total sales at Piedmont Natural Gas decreased 2.1% to 151.7 million dekatherms and Duke Energy Midwest LDC throughput rose 3.8% to 38.5 million Mcf. The average number of Piedmont Natural Gas customers increased 1.2% to 1.01 million and Duke Energy Midwest’s improved 0.8% to 540,329 customers.

**COMMERCIAL RENEWABLES:** Reported 1Q19 adjusted earnings decreased to \$13 million from \$20 million during 1Q18, or \$0.01/share. The decline in results came from lower wind production during 1Q19.



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OTHER: This unit includes corporate interest expense not allocated to DUK's business units, results from DUK's captive insurance company, and other unallocated corporate costs. This unit reported an adjusted net loss of \$89 million vs. a \$95 million net loss during 1Q18. The reported net loss was \$89 million compared to a net loss of \$266 million. Results for 1Q18 were impacted by an \$82 million after-tax loss on the sale of the retired Beckjord Plant in Ohio, recognition of a \$76 million valuation allowance related to the Tax Act, and costs to achieve the Piedmont Natural Gas merger-these amounts were excluded from adjusted earnings.

## RECENT DEVELOPMENTS

DUK announced it was appealing the NC Department of Environmental Quality's order requiring the excavation of coal ash at nine current and former coal-burning power plants and reburial of the coal in lined landfills. Management believes such action could add \$4 billion - \$5 billion in cost to the earlier estimates of \$5.6 billion estimate for the initial coal ash clean up.

John Hancock agreed to purchase a minority interest in DUK's commercial renewable energy portfolio for \$415 million. The sale would include 49% of 37 wind/solar/battery storage assets and 33% of 11 operating solar assets throughout the US.

A NC Senate committee approved a bill allowing DUK to request rate increases to fund specific projects over the next five years, allowing for multiple rate increases.

DUK announced plans to build/own/operate the 200 MW Mesteno Wind Project in TX with expectations of completion by year end 2019.

The company put forth a plan to add more renewable energy to its grid through the building of three new solar power plants in FL, with combined generation of 195 MW. The proposed plants will be in the counties of Gilchrist, Highlands, and Volusia with the goal of entering operation by 1Q20. Estimated costs for all three are \$252 million.

Williams Co. (WMB-\$26.87) announced FERC would consider approving the long-delayed Constitution natural gas pipeline, from PA to NY, following the D.C. Court of Appeals allowing a reconsideration, by FERC, of the pipeline's approval.

Construction of the Atlantic Coast Pipeline (ACP) was dealt a setback after the Fourth US Circuit Court of Appeals vacated a permit issued by the US Forest Service allowing for the path of the pipeline through the Appalachian Trail. Dominion Resources (D-\$75.96) is appealing this decision to the Supreme Court and the US Solicitor General asked the Court to extend the time the government has to file a petition in an appeal of the Fourth Circuit Court's decision.

The ACP was given a Virginia compressor permit by the Virginia Air Pollution Control Board.



The US Government is seeking a \$10 million fine from DUK for violations of rules established to keep the US electrical system safe from physical and cyber attacks.

DUK and D completed the issuance of \$1.36 billion of “green” bonds to finance eligible green energy projects such as solar and energy storage.

## OUR THOUGHTS

A good earnings report from DUK as the company reported diluted earnings of \$1.24/share vs. \$0.88/share during 1Q18. Adjusted earnings decreased to \$1.24/share from \$1.28/share due to unfavorable 1Q19 weather and share dilution, which were partly offset by growth from investments at the electric and gas utilities. Given the recent market volatility over China/US trade concerns, DUK stock has held up well as investors have moved money into more defensive sectors, like utilities. Furthermore, management provided 2019 adjusted earnings guidance of \$4.80-\$5.20/share and restated its goal of growing earnings 4%-6% on an annual basis.

DUK will still have to deal with the potential of increasing costs associated with its coal ash clean up and the Atlantic Coast Pipeline. Given Wall Street’s current trend of selling off stocks due to “breaking” negative news, DUK’s shares could be volatile if added costs, or delays, occur with either coal ash clean-up efforts or in the construction of the Atlantic Coast Pipeline. However, this stock is recommended for long-term income growth investors, offering an attractive current dividend yield of 4.3%. Going forward, the dividend may be increased if DUK successfully grows annual earnings by 4%-6%. We rate this stock a BUY with an \$88 price target, equating to 1.42x book value per share.



## Risks

Failure of DUK to grow cash flow/earnings. Declining earnings from its three operating units. Rising interest rates, increasing fuel prices, falling electric rates, negative rate case decisions, adverse tax or legal issues, or rising operating costs could have a negative impact on our price target. Additionally, negative equity/credit markets, large selling volumes in DUK's stock, terrorist attacks, wars, geopolitical events, US political issues, failure to comply with Sarbanes Oxley guidelines, or maintain accepted accounting standards could be risks to DUK and our price target for its stock.

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# EQUITY RESEARCH

Duke Energy  
Condensed Consolidated Statements of Operations  
unaudited  
(in millions, except per share amounts)

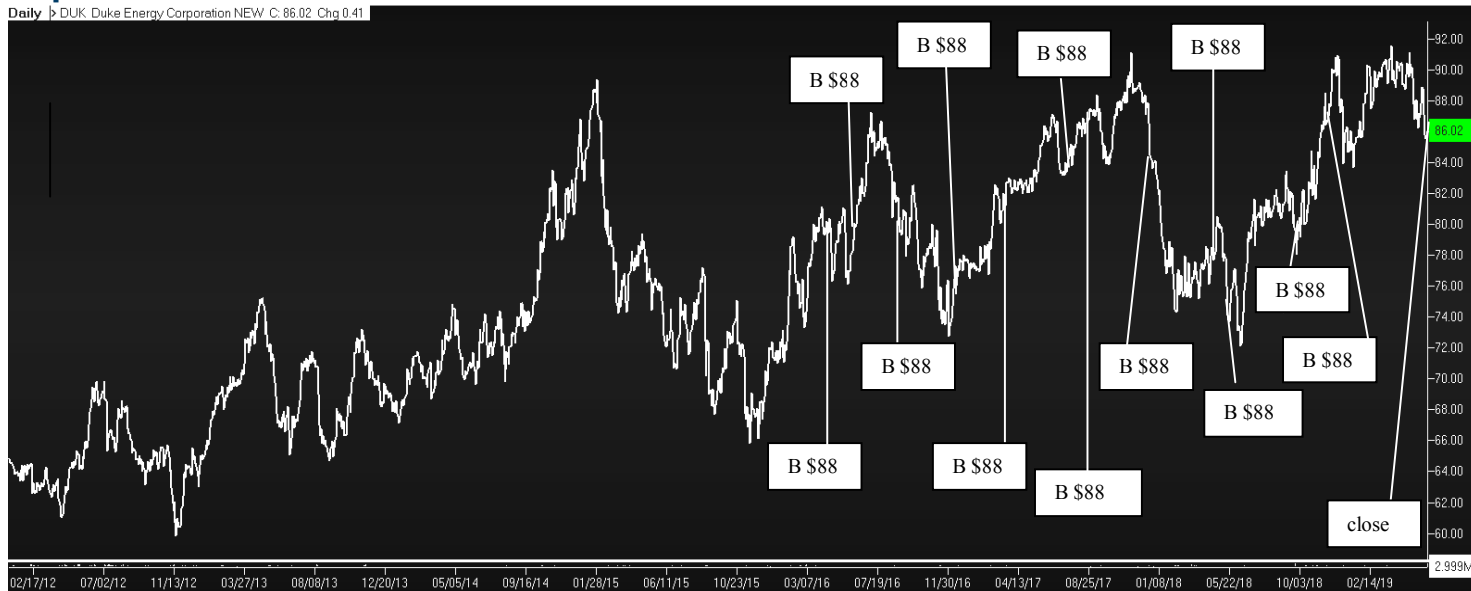
	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19e	3Q19e	4Q19e	2019e
<b>Operating Revenues:</b>										
Regulated electric	\$5,284	\$ 5,178	\$6,216	\$ 5,419	\$22,097	\$5,285	\$5,348	\$6,329	\$5,267	\$22,229
Non-regulated electric/natgas/other	700	291	230	552	1,773	728	362	241	508	1,839
Regulated natural gas	151	174	182	144	651	150	183	194	132	659
Total Operating revenues	6,135	5,643	6,628	6,115	24,521	6,163	5,893	6,764	5,907	24,727
<b>Operating Expenses:</b>										
Fuel electric gen. & purchased power-reg	1,676	1,574	1,931	1,650	6,831	1,609	1,596	1,994	1,628	6,827
Cost of natural gas & coal sold	313	89	58	237	697	327	117	72	243	759
Operation, maintenance, & other	1,464	1,544	1,584	1,871	6,463	1,419	1,428	1,526	1,746	6,119
Depreciation & Amortization	967	973	1,039	1,095	4,074	1,089	957	1,042	1,058	4,146
Property & other taxes	316	315	323	326	1,280	343	324	368	327	1,362
Impairment charges	43	172	124	63	402					
Total Operating expenses	4,779	4,667	5,059	5,242	19,747	4,787	4,422	5,003	5,002	19,214
Gains/losses sale of other assets (net)	100	3	10	2	115	3	5	8	11	27
Operating Income	1,256	979	1,579	871	4,685	1,373	1,476	1,769	916	5,534
<b>Other Income/Expenses</b>										
Equity in earnings of unconsolidated affiliates	-24	36	37	34	83	43	35	28	23	129
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	86	110	131	72	399	115	104	68	78	365
Total other income/expenses	62	146	168	106	482	158	139	96	101	494
Interest expense	515	518	517	544	2,094	543	545	545	547	2,180
Income from Cont Ops before Income Taxes	803	607	1,230	433	3,073	988	1,070	1,320	470	3,848
Income tax expense	181	100	168	1	450	95	118	159	61	433
Income from Cont Operations	622	507	1,062	434	2,625	893	952	1,161	409	3,415
Income (loss) from Discontinued Ops		-5	4	20	19					
Net Income	622	502	1,066	434	2,624	997	952	1,161	409	3,519
Net Income/loss attributable to non-controlling interest	-2	-2	16	20	32	-7	-2	-2	-3	-14
Net Income attributable to Duke Energy	620	500	1,082	464	2,666	900	950	1,159	406	3,405
Diluted EPS	\$0.88	\$0.71	\$1.51	\$0.65	\$3.76	\$1.24	\$1.31	\$1.59	\$0.56	\$4.70
Net Income from discon ops attributable shareholders										
Diluted EPS	\$0.88	\$0.71	\$1.51	\$0.65	\$3.76	\$1.24	\$1.31	\$1.59	\$0.56	\$4.70
Adjustments	\$0.40	\$0.22	\$0.14	\$0.19	\$0.96		\$0.13	\$0.16	\$0.11	\$0.40
Adjusted Diluted EPS	\$1.28	\$0.93	\$1.65	\$0.84	\$4.72	\$1.24	\$1.44	\$1.75	\$0.67	\$5.10



# EQUITY RESEARCH

## Important Disclosures

Daily | DUK Duke Energy Corporation NEW C: 86.02 Chg 0.41



12/26/14 Raise Price Target to \$88  
 12/6/13 Raise Price Target to \$76  
 12/12/12 Raise Price Target to \$70  
 12/5/11 Raise Price Target to \$66  
 9/19/11 Raise Price Target to \$61.50  
 9/23/09 Initiate Buy Rating & \$60 Target Price  
 Ratings:  
 Buy: B  
 Hold: H  
 Sell: S

\$88 price target equates to 1.42x book value/share

**RISKS TO OUR PRICE TARGET:** Failure of DUK to grow cashflow or earnings. Declining earnings from its' 3 operating units,. Risng interest rates, increasing fuel prices, falling electric rates, negative rate case decisions, adverse tax or legal issues, or rising operating costs could have a negative impact on our price target. Additionally, negative equity/credit markets, large selling volumes in DUK's stock, terrorist attacks, wars, geopolitical issues,US politics, failure to comply with Sarbanes Oxley guidelines, or maintain accepted accounting standards could be risks to our price target.

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Analyst owns/controls family account containing shares of Duke Energy

Stock ratings used in this report are defined as follows:

- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 33.3%, (2) 66.7%, (3) 0%

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