



November 13, 2019

**CURRENT PRICE:** \$87.58  
**RATING:** BUY  
**PRICE TARGET:** \$94  
**CURRENT YIELD:** 4.3%

### EPS Estimates

	DEC 18A	DEC 18E
1Q	\$1.28	\$1.24A
2Q	\$0.93	\$1.12A
3Q	\$1.65	\$1.79A
4Q	\$0.84	\$0.95
	<b>\$4.72</b>	<b>\$5.10</b>

### Trading Data

52-WEEK PRICE RANGE: \$97.37 - \$82.46  
 SHARES OUTSTANDING: 729(M)  
 MARKET CAP: \$63,846(M)  
 AVG. DAILY TRADING VOLUME: 2.8(M)  
 S&P 500: 3,094

### Valuation Data

BOOK VALUE: \$65.03  
 PRICE TO BOOK: 1.34x  
 DIVIDEND: \$3.78

## Duke Energy (NYSE: DUK)

3Q19 Earnings Report

### Highlights

- Adjusted diluted 3Q19 earnings of \$1.79/share vs. \$1.65/share
- Positive results at three operating units
- Expect SCOTUS ruling on ACP in 2020
- Issuing \$2.5 billion of additional common stock
- Maintain BUY rating & raising price target to \$94/share

### Investment Thesis

Wall Street expects the US economy to experience GDP growth of about 2%-3% 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 \$94/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.*

100 Concourse Boulevard, Suite 101  
 Glen Allen, Virginia 23059

804.612.9700 ■ 800.612.1484  
 804.527.1104

[www.CapitolSecurities.com](http://www.CapitolSecurities.com)

Member  
 FINRA  
 SIPC

Offices: Glen Allen, VA ■ Reston, VA ■ Charlottesville, VA ■ Silver Spring, MD ■ Baltimore, MD ■ Tampa, FL ■ Boston, MA ■ Florham Park, NJ



# EQUITY RESEARCH

## Recent Earnings

DUK reported 3Q19 diluted earnings of \$1.82/share vs. \$1.51/share during 3Q18. When comparing the two quarters, operating revenues rose to \$6.94 billion from \$6.63 billion and operating expenses decreased to \$5.01 billion from \$5.06 billion. Operating expenses declined due to lower cost of natural gas (-\$10 million), operations/maintenance/other (-\$100 million), impairment charges (-\$144 million), and were partly offset by higher fuel used for electric generation/purchased power (+\$47 million), depletion/amortization (+\$147 million), and property/other taxes (+\$12 million).

The company reported adjusted earnings of \$1.79/share vs. \$1.65/share during 3Q18. The improvement was due to growth from investments in the electric and gas utilities, favorable weather, and lower O&M expense. The difference between 3Q19's diluted and adjusted earnings per share results was because of a reduction in an impairment charge originally recorded during 2018.

## SEGMENT RESULTS

**ELECTRIC UTILITIES/INFRASTRUCTURE:** Reported 3Q19 segment income of \$1.39 million vs. \$1.17 million during 3Q18 as these results reflected the lowering of an impairment charge originally recorded during 2018. This amount was excluded from adjusted earnings. Adjusted segment income improved to \$1.37 million from \$1.18 million, representing an increase of \$0.25/share and excluding share dilution of \$0.03/share. The higher results came from contributions from base rate changes and higher rider revenues (+\$0.11/share), favorable weather (+\$0.09/share), and lower O&M expenses (+\$0.07/share). These positives were partly offset by higher D&A (-\$0.03/share) and lower volumes (-\$0.03/share).

Total electric sales rose 0.3% to 73,931 GWh from 73,685 GWh. The increase was due to higher sales from residential (+0.6%), other energy (+3.5%), and unbilled (+111.7%), while being partly offset by lower sales from industrial (-4.2%), general services (-1.4%), and wholesale/other (-0.4%).

**GAS UTILITIES/INFRASTRUCTURE:** Reported segment income rose to \$26 million during 3Q19 vs. \$17 million during 3Q18. Adjusted segment income improved to \$26 million, from \$18 million, when comparing these two quarters, reflecting a +\$0.01/share rise in earnings. The higher quarterly results came from increased earnings from midstream investments.

Total sales at Piedmont Natural Gas decreased 10.4% to 121.4 million dekatherms and Duke Energy Midwest LDC throughput increased 6.7% to 10.0 million Mcf. The average number of Piedmont Natural Gas customers rose 1.6% to 1.08 million and Duke Energy Midwest's improved 0.8% to 528,225 customers.



# EQUITY RESEARCH

**COMMERCIAL RENEWABLES:** Reported segment income rose to \$40 million during 3Q19 vs. -\$60 million during 3Q18. Adjusted segment income improved to \$40 million, from \$26 million, when comparing these two quarters, reflecting a +\$0.02/share rise in earnings. The higher quarterly results came from favorable wind resource and growth from new projects. 3Q18's results included a goodwill testing impairment charge and was treated as a special item and excluded from adjusted earnings. Renewable plant production rose 13.1% to 2,146 GWh.

**OTHER:** This unit includes corporate interest expense not allocated to DUK's business units, results from the captive insurance company, and other unallocated corporate costs. 3Q19 segment results generated a net loss of -\$124 million compared to a net loss of -\$44 million during 3Q18. For these two periods, adjusted segment results produced a net loss of -\$124 million vs. a net loss of -\$40 million. The decrease in results in OTHER came from higher financing costs related to funding various investments (-\$0.05/share) and timing of income tax in 2019 vs 2018 (-\$0.06)/share.

## RECENT DEVELOPMENTS

Due to the delay of construction of the Atlantic Coast Pipeline (ACP), DUK anticipates it will not begin to operate ACP until 2011. Additionally, the company plans to issue \$2.5 billion of additional common stock in order to cover general costs.

In a related note, Dominion Energy (D-\$80.84) has convinced the US Supreme Court to examine the lower court ruling which has delayed construction of ACP. D believes a US Supreme Court decision could be reached by summer of 2020.

The Board of Directors, this past August, raised the annual dividend 2% to \$3.78/share from \$3.71/share.

A NC administrative law judge ruled the stated Department of Environmental Quality provided enough notice to DUK related to the ordered excavation of nine of the company's coal ash basins. DUK was attempting to delay, through a regulatory hearing, the cleanup order from the state of NC.

DUK announced it would be bidding, along with 15 other companies, on the Jacksonville FL Municipal utility, known as JEA. It was reported JEA was asking for a minimum bid of \$3 billion in cash and \$400 million in customer rebates.

DUK is seeking a 20 year operating license extension on its entire fleet of 11 nuclear plants at six sites in NC and SC. The first renewal application will be filed for the three-unit 2,500 MW Oconee station in Seneca SC.





Plans were announced for DUK to build/own a 182 MW windfarm in Texas based on a 12-year virtual power purchase agreement with Sprint (S-\$6.06). Construction will begin this year and the plant is expected to be in operation by year end 2020.

Following many other US utilities, DUK announced an expanded strategy to cut carbon emissions from electric generation plants by 50% below 2005's emission levels by 2030, and reach net-zero carbon by 2050

DUK purchased the 200 MW Rambler solar project in Texas from Canadian Solar (CSIQ-\$14.66). This plant is expected to achieve commercial operation by mid-2020.

The Constitution Pipeline completion was proceeding forward after FERC ruled the state of NY waived its water quality authority for the pipeline. This project had been halted since 2016 and is a 124 mile gas pipeline designed to ship up to 650 Mcf/day of PA gas to interconnections with the Iroquois GAS Transmission and Tennessee Gas Pipeline in upstate NY.

DUK purchased the 200 MW Holstein solar project, currently under construction in central TX, from 8Minute Solar Energy for an undisclosed sum. Most of the energy generated from this project will be sold through a hedge agreement to Goldman Sachs subsidiary, J. Aron & Co.

Duke Energy Indiana proposed a 20-year integrated resource plan for the IN operations asking for adding 1,240 MW of gas-fired generation, 700 MW of wind generation, and 1,650 MW of solar power, as well as the continued operation of some coals units for almost 20 years. Additionally, seven coal units would be retired and nine units would be "shuttered" during the next 7-19 years.

## OUR THOUGHTS

Overall, a good quarterly earnings report from DUK as the company reported 3Q19 diluted earnings of \$1.82/share vs. \$1.51/share during 3Q18. When comparing the two quarters, adjusted earnings were \$1.79/share vs. \$1.65/share. The improvement was due to growth from investments in the electric and gas utilities, favorable weather, and lower O&M expense. The difference between 3Q19's diluted and adjusted earnings per share results was because of a reduction in an impairment charge originally recorded during 2018.

Despite 3Q19's earnings results, the stock fell, in our opinion, because DUK missed Wall Street's quarterly expectations and the company's announcement of issuing an additional \$2.5 billion in common stock. Longer-term investors should ignore the short-term trading machinations of Wall Street and focus on longer term aspects of potential growth of dividends and earnings. To the latter point DUK raised the midpoint of 2019 adjusted earnings guidance to \$4.95-\$5.15/share. Furthermore, management expects annual earnings growth of 4%-6% through 2023, which could facilitate future dividend increases. These shares are rated a BUY and recommended for income/growth investors given DUK's current dividend yield of 4.3%. We are raising our price target for DUK to \$94/share, equating to 1.45x its current book value of \$65.03/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.

Steven F. Marascia  
Director of Research  
Capitol Securities Management  
804-612-9715



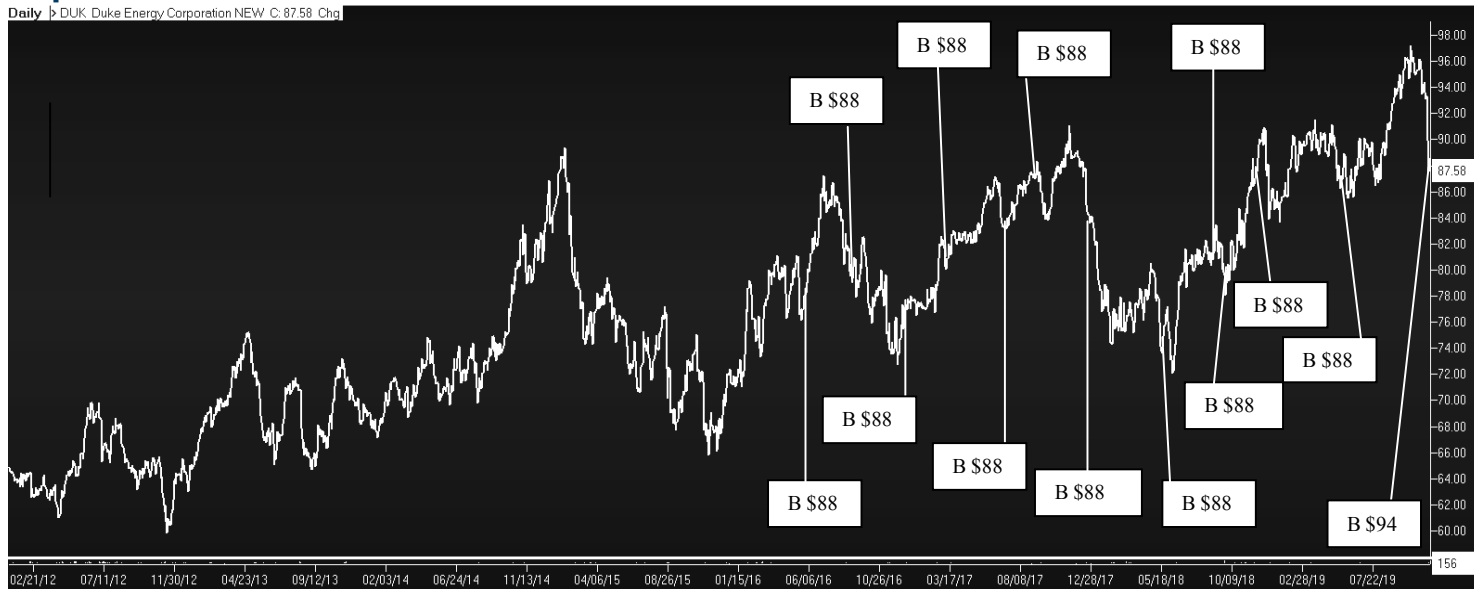
# EQUITY RESEARCH

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

	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19e	2019e
<b>Operating Revenues:</b>										
Regulated electric	\$5,284	\$ 5,178	\$6,216	\$ 5,419	\$22,097	\$5,285	\$5,423	\$6,515	\$5,567	\$22,790
Non-regulated electric/natgas/other	700	291	230	552	1,773	728	280	223	508	1,739
Regulated natural gas	151	174	182	144	651	150	170	202	132	654
Total Operating revenues	6,135	5,643	6,628	6,115	24,521	6,163	5,873	6,940	6,207	25,183
<b>Operating Expenses:</b>										
Fuel electric gen. & purchased power-reg	1,676	1,574	1,931	1,650	6,831	1,609	1,641	1,978	1,628	6,856
Cost of natural gas & coal sold	313	89	58	237	697	327	76	48	243	694
Operation, maintenance, & other	1,464	1,544	1,584	1,871	6,463	1,419	1,434	1,484	1,746	6,083
Depreciation & Amortization	967	973	1,039	1,095	4,074	1,089	1,089	1,186	1,058	4,422
Property & other taxes	316	315	323	326	1,280	343	334	335	327	1,339
Impairment charges	43	172	124	63	402		4	20		24
Total Operating expenses	4,779	4,667	5,059	5,242	19,747	4,787	4,578	5,011	5,002	19,378
Gains/losses sale of other assets (net)	100	3	10	2	115	3	3		11	17
Operating Income	1,256	979	1,579	871	4,685	1,373	1,298	1,929	1,216	5,816
<b>Other Income/Expenses</b>										
Equity in earnings of unconsolidated affiliates	-24	36	37	34	83	43	44	50	23	160
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	86	110	131	72	399	115	89	104	78	386
Total other income/expenses	62	146	168	106	482	158	133	154	101	546
Interest expense	515	518	517	544	2,094	543	542	572	573	2,230
Income from Cont Ops before Income Taxes	803	607	1,230	433	3,073	988	889	1,511	744	4,132
Income tax expense	181	100	168	1	450	95	141	188	96	520
Income from Cont Operations	622	507	1,062	434	2,625	893	748	1,323	648	3,612
Income (loss) from Discontinued Ops		-5	4	20	19					
Net Income	622	502	1,066	434	2,624	907	748	1,323	648	3,626
Net Income/loss attributable to non-controlling interest	-2	-2	16	20	32	-7	-84	-19	-3	-113
Net Income attributable to Duke Energy	620	500	1,082	464	2,666	900	820	1,327	660	3,707
Diluted EPS	\$0.88	\$0.71	\$1.51	\$0.65	\$3.76	\$1.24	\$1.12	\$1.82	\$0.91	\$5.09
Net Income from discon ops attributable shareholders										
Diluted EPS	\$0.88	\$0.71	\$1.51	\$0.65	\$3.76	\$1.24	\$1.12	\$1.82	\$0.91	\$5.09
Adjustments	\$0.40	\$0.22	\$0.14	\$0.19	\$0.96			(\$0.03)	\$0.04	\$0.01
Adjusted Diluted EPS	\$1.28	\$0.93	\$1.65	\$0.84	\$4.72	\$1.24	\$1.12	\$1.79	\$0.95	\$5.10

## Important Disclosures

Daily | DUK Duke Energy Corporation NEW C: 87.58 Chg



11/13/19 Raise Price Target to \$94  
 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

\$94 price target equates to 1.45x 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.

Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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%

Capitol Securities Management's Investment Banking/Public Finance unit has not received compensation for investment banking services from the subject company in the past 12 months. Nor does it expect to receive, or intend to seek compensation for, investment banking services from the subject company in the next 3 months.





No affiliate of Capitol Securities Management, or Capitol Securities Management, received compensation from the subject company for products or services during the past 12 months.

The subject company is not, or during the past 12 months, was not, a client of Capitol Securities Management's Investment Banking/Public Finance unit.

## Other Disclosures

This report is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Capitol Securities or its affiliates to any registration or licensing requirement within such jurisdiction. The information presented in this report is provided to you for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. Capitol Securities may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Capitol Securities will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Capitol Securities does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. Information and opinions presented in this report have been obtained or derived from sources believed by Capitol Securities to be reliable, but Capitol Securities

makes no representation as to their accuracy or completeness. This report is not to be relied upon in substitution for the exercise of independent judgment. Capitol Securities may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Capitol Securities and are subject to change without notice. The price, value of and income from any of the securities mentioned in this report can fall as well as rise.

**For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 100 Concourse Boulevard, Suite 101, Glen Allen, Virginia 23059**