September 11, 2020

CURRENT PRICE:	**$83.03**
RATING:	**BUY**
PRICE TARGET:	**$94**
CURRENT YIELD:	**4.7%**

EPS Estimates

	DEC 19A	DEC 20E
1Q	$1.24	$1.14A
2Q	$1.12	$1.08A
3Q	$1.79	$1.89
4Q	$0.91	$0.98
	$5.06	**$5.09**

Trading Data

52-WEEK PRICE RANGE:	**$103.79-$82.46**
SHARES OUTSTANDING:	**735(M)**
MARKET CAP:	**$61,027(M)**
AVG. DAILY TRADING VOLUME:	**3.6(M)**
S&P 500:	**3,341**

Valuation Data

BOOK VALUE:	**$63.42**
PRICE TO BOOK:	**1.31x**
DIVIDEND:	**$3.86**

Duke Energy (NYSE: DUK)

2Q20 Earnings Report-ACP Cancelled

Highlights

- Adjusted diluted 2Q20 earnings of $1.08share vs. $1.12/share
- Coping with Covid-19
- $2 billion charge for discontinuation of ACP
- 2% increase of annual dividend
- Maintain BUY rating & $94/share price target

Investment Thesis

Wall Street expects the US economy to rebound from the recent Covid-19 recession over the next year or two. While this is 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 based on a resurgent US economy. One attractive sector is the utility group and one company in this area we like is Duke Energy. This utility pays an attractive 4.7% dividend yield, and offers dividend/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.

Recent Earnings

DUK reported 2Q20 operating earnings of ($1.13)/share vs. $1.12/share during 2Q19. When comparing the two quarters, total operating revenues decreased to $5.42 billion from $5.87 billion and operating expenses fell to $4.25 billion from $4.59 billion. Revenues declined due to unfavorable weather and the Covid-19 recession. The decrease in operating expenses came mainly from lower fuel used in electrical generation/purchased power (-$292 million), natural gas cost (-$17 million) and O&M expense (-$81 million). As a result, operating income decreased to $1.18 billion from $1.30 billion. 2Q20's adjusted earnings fell to $1.08/share from to $1.12/share during 2Q19. The difference between operating earnings and adjusted earnings was mainly to the charge taken for the discontinuation of the Atlantic Coast Pipeline (ACP) project.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: Both reported and adjusted results produced segment income of $753 million during 2Q20 vs. $809 million during 2Q19, equating to a decline of $0.08/share, when excluding the effect of share dilution. The decrease was due to mild weather, increased depreciation/amortization from a larger asset base, and lower electric volumes created by the Covid-19 economic slowdown. These negatives were partly offset by lower O&M expense, contributions from SC and FL rate base increases, and other cost cutting efforts to mitigate the effect of Covid-19 and mild weather. Unfavorable weather, and the Covid-19 recession, caused total electric sales to decline 8.8% to 56,725 GWh from 62,224 GWh.

GAS UTILITIES & INFRASTRUCTURE: When comparing the two quarters, reported segment income fell to -$1.58 billion from $40 million. The decline was due mainly to the charge related to ending the ACP project, was treated as a special item, and excluded from adjusted earnings. On an adjusted basis, segment income rose to $50 million from $40 million, equating to an increase of $0.01/share. The improvement came from a NC Piedmont Natural Gas rate case and lower O&M expenses. These positives were partly offset by higher interest expense. Total gas sales at both Piedmont Natural Gas LDC, and Duke Energy Midwest LDC throughput, fell 2.1% and 12.3%, respectively.

COMMERCIAL RENEWABLES: Both reported and adjusted segment income rose to $90 million from $86 million, when comparing 2Q20 to 2Q19. This equates to an improvement of $0.01/share and was generated by growth from DUK's renewable projects placed into service during 2Q20. Renewable plant production rose 15.0% to 2,660 GWh.

OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from DUK's captive insurance company. When comparing 2Q20 and 2Q19, reported and segment income was -$84 million vs. -$115 million. Improved results were due to lower income tax expense and unrealized investment gains on non-pension executive benefit trusts and were partially offset by higher financing costs.

EARNINGS CONFERENCE CALL

Following its 2Q20 earnings release, DUK held an earnings conference call discussing earnings, effects of Covid-19, cancellation of the ACP, and recovery of coal ash expenses. DUK, as with most companies, is dealing with the decline in business created by the recession and the effects of the stay-at-home lifestyle caused by Covid-19. These two factors caused a decline in operating revenues when comparing 2Q20 to 2Q19 due to decreased electrical demand. However, management hopes a re-opening of the US economy will cause revenues to rebound during the balance of FY20 - depending upon the speed of recovery and the avoidance of a second-wave of Covid cases.

Management estimates FY20 revenue may decrease by $0.25-$0.35/share consistent, with current stay-at-home policies through the midsummer, and assuming a gradual recovery during 3Q20. DUK maintained 2020 adjusted earnings guidance of $5.05-$5.45/share but reduced expectations to the lower end of this range following the cancellation of the Atlantic Coast Pipeline (see below).

Because of the expected lower demand for electricity, DUK initiated a cost reduction plan of $350 million -$450 million from operations, corporate center costs, employee expenses, overtime variable compensation, contraction of contingent workers, and implemented a hiring freeze. Additionally, the company may evaluate real estate expenses and the retirement of certain assets. Some savings were realized during 2Q20 and management expects full savings to be realized by year end 2020, believing these efforts will allow DUK to make needed capital investments on behalf of its customers.

Future power generation plans include a five year $56 billion investment plan to move towards cleaner energy, modernize/strengthen DUK's energy grid, and expand the natural gas infrastructure. One goal is to reduce the company's carbon foot-print 50% by 2030 and towards 0% by 2050. Along these lines, DUK plans to retire coal plants, invest in replacement generations, battery storage, energy delivery systems, energy efficiency, and demand side management.

CANCELLATION OF ATLANTIC COAST PIPELINE

DUK, along with Dominion Energy (D-$79.64), announced the cancellation of the Atlantic Coastline Pipeline project (ACP). The cause of this were two things – continued legal challenges and cost overruns for the pipeline. Despite a recent positive ruling for the ACP, by the US Supreme Court, many legal obstacles remained from opposition groups, potentially creating more delays in the pipeline's construction and higher completion costs.

Originally, DUK and D, estimated ACP's total construction cost would be approximately $4 billion -$4.5 billion. However, seeing the increasing time delays and rising materials costs, the estimated completion cost for this pipeline rose to $8 billion -$8.5 billion, and thus negatively changed the economics of ACP's operation.

Given these factors, DUK and D, announced the cancellation of the ACP. For its portion of the project, DUK took a taking a pre-tax charge of $1.6 billion during 2Q20 with the remainder to be taken during 2H20. Management stated it has begun to identify new capital projects which could replace the approximately $2 billion originally planned for the ACP.

COAL ASH RESOLUTION

DUK entered into an agreement with NC regulators to permanently close all nine remaining coal ash basins in the state. Management estimates a new agreement could reduce the cost by approximately $1.5 billion when compared to the 2019 NCDEQ order. DUK anticipates total closing costs of the nine plants will be $8 billion - $9 billion, with $2.4 billion already spent in 2019. The company appeared in hearings before NC regulators on 8/24 for cost recovery of coal ash expenses. Potentially, a negative settlement on cost recovery for DUK may cause the debt rating agencies to lower ratings on the company's debt.

FY20 EARNINGS & BEYOND

Management stated the 3%-5% revenue decrease, caused by the Covid slowdown and unfavorable recent weather, will cause 2020 earnings to come in at the lower range of earlier 2020 earnings guidance of $5.05-$5.45/share. For 2H20, the company expects earnings drivers to come from new base rates in IN, NC, KY, Piedmont LDC, continuing benefits from its FL multi-year rate plan, and SoBRA investments. Additionally, management said they are seeing strength in residential sector demand, some recovery in the commercial/industrial volumes, and more favorable weather during the past 2 months. Potentially, 2021 earnings could come in around $5.15/share, subject to revision based on forward business developments. DUK said 95% of future earnings will come from the regulated electric and gas utilities with a focus on delivering long term growth of 4%-6% off of a potential 2021 earnings base of $5.15/share. Management said it will outline 2021 earnings drivers this November and a 2021 earnings guidance range in February 2021, along with an updated five-year capital plan.

RECENT DEVELOPMENTS

DUK announced it filed, with regulators, the locations of three new solar power plants in FL. One will be a 74.5 MW Duette Solar Power facility with 227,000 single axis tracking panels. Another will be 74.9 MW Charlie Creek Solar plant with 235,000 single axis tracking panels, and the third will be a 74.9 MW Archer Solar Power plant with 220,000 single axis tracking solar panels. All are expected to be fully operational by 2H21.

The company plans to add three battery storage sites in Florida. One will be an 18MW lithium battery site at the Lake Placid FL Solar plant, another will be an 8.25 MW battery site added to a facility near Gainsville, and the other will be a 3.5MW solar plus storage microgrid site at Johns Hopkins Middle school in Pinellas County.

Duke Energy Carolinas and Duke Energy Progress filed their 2020 Integrated Resource Plans (IRB). This outlined offer 6 potential plans to help DUK achieve its stated goal of reducing carbon emissions 50% by 2030 and nearly zero by 2050. Bloomberg estimates these plans could add $21 to $58/month to customers electric bills by 2035.

Williams Company (WB-$33.25) announced it was shelving its plans for the Constitutional Pipeline, which was to move natural gas from PA to NY, due to ongoing legal battles with environmental groups. Partners in this project were Cabot Oil & Gas (COG-$18.24), AltaGas (ATGFF-$12.40) and DUK.

DUK announced plans to convert most of its 10,000 vehicle fleet to electric or other zero-carbon power within 10 years. This is part of its plans to reduce CO2 emissions by 60,000 metric tons and petroleum usage by 10 million gallons annually by 2020.

The Florida Supreme Court halted a proposed constitutional amendment that would have allowed state customers to choose different electrical suppliers.

DUK's 200 MW alternating Rambler Solar Project, in TX, recently began commercial operations. Power generated from this facility is being sold to an unnamed customer under a 15-year agreement. This past May another of DUK's solar facility in TX, the 200 MW Holstein Solar Project, began commercial operations.

The recently completed Ashville Combined Cycle Station in Arden NC was put into commercial service and will provide 560 MW of electricity to customers in NC and SC. Management said this facility is the most efficient in NC and 75% more efficient than the retired coal plant it was designed to replace.

The Friends of Earth & Lumber Riverkeeper organization filed a challenge to halt the construction of DUK's Robeson liquefied natural gas project in NC. The group argues DUK lacks valid authorization under the Clean Water Act to build this facility. DUK will defend the group's move in court.

OUR THOUGHTS

Given a 4.7% dividend yield, and evolving business plan to transition from heavy dependence on carbon generation towards a "greener" footprint, we continue to rate DUK a BUY for income/growth investors. This utility has set a goal to reduce its carbon footprint by 50% by 2030, strive for 4%-6% long term earnings growth, and generate over 90% of its revenues from its' regulated utility businesses. Sustained earnings growth could allow DUK to increase annual dividends to shareholders in future. In fact, the dividend was recently raised 2%, marking the 14th consecutive year of dividend increases. There are near term challenges facing DUK - such as replacing revenues expected from the ACP, and finalizing a coal ash settlement-without causing a debt downgrade by the ratings agencies. If DUK overcomes these challenges, then Wall Street investors could increase demand for this stock and cause these shares to rise during the next 12-18 months. Our price target is $96/share, based on DUK trading at 1.51x its current book value of $63.42/share. DUK is rated a BUY for income/growth investors.

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. A negative coal ash decision from regulators could adversely affect DUK's share price. Additionally, negative equity/credit markets, large selling volumes in DUK's stock, terrorist attacks, wars, geopolitical events, US political environmental 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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Director of Research
Capitol Securities Management
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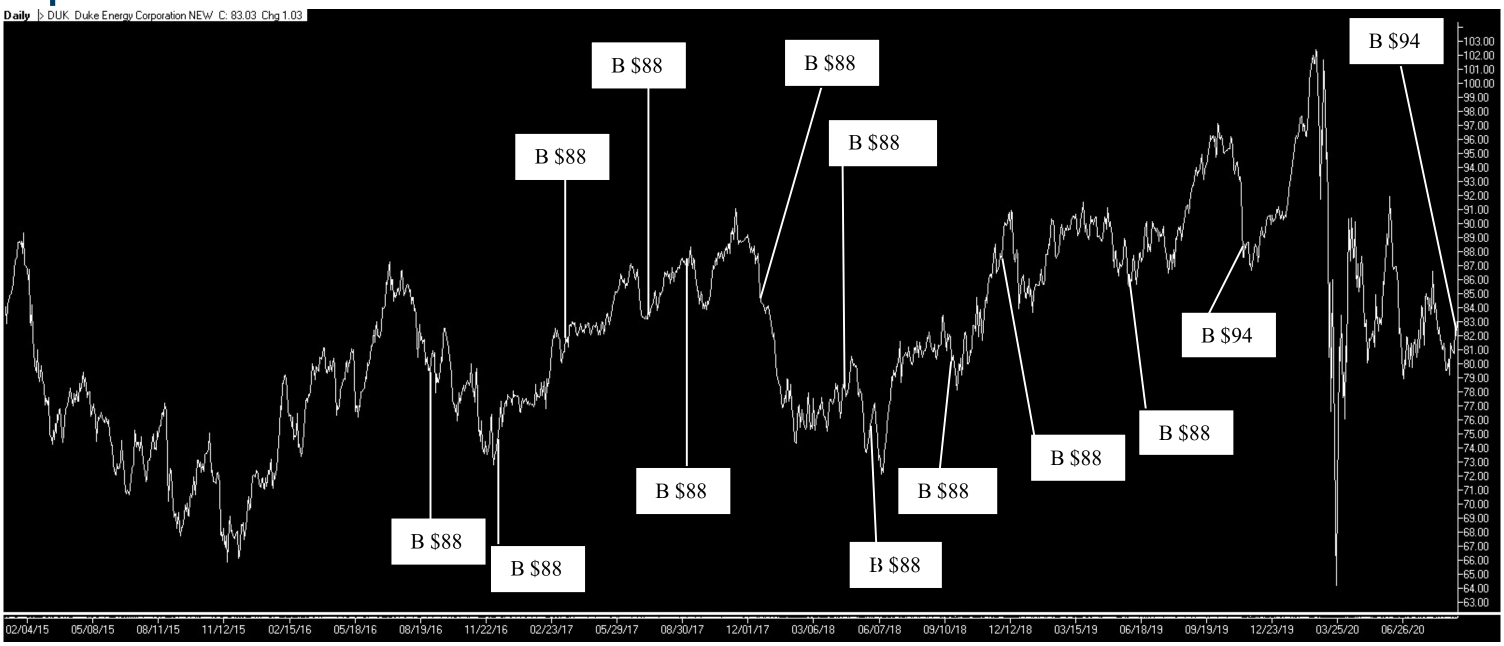
Capitol Securities Management, Inc.

Equity Research

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

	1Q19	2Q19	3Q19	4Q19	FY19	1Q20	2Q20	3Q20e	4Q20e	FY20e
Operating Revenues:										
Regulated electric	$5,285	$5,423	$6,515	$5,392	$22,615	$5,124	$4,963	$6,618	$5,283	$21,988
Non-regulated electric/natgas/other	728	280	223	183	705	187	195	167	181	730
Regulated natural gas	150	170	202	528	1,759	638	263	289	517	1,707
Total Operating revenues	6,163	5,873	6,940	6,103	25,079	5,949	5,421	7,074	5,981	24,425
Operating Expenses:										
Fuel elecctric gen. & purchased power-reg	1,609	1,641	1,978	1,598	6,826	1,447	1,349	1,946	1,657	6,399
Cost of natural gas & coal sold	327	76	48	176	627	199	59	212	168	638
Operation, maintenance, & other	1,419	1,434	1,484	1,729	6,066	1,339	1,353	1,406	1,386	5,484
Depreciation & Amortization	1,089	1,089	1,186	1,184	4,548	1,130	1,150	1,182	1,185	4,647
Property & other taxes	343	334	335	295	1,307	345	334	343	284	1,306
Impairment charges		4	20	8	8	2	6			8
Total Operating expenses	4,787	4,578	5,011	4,990	19,366	4,462	4,251	5,089	4,680	18,482
Gains/losses sale of other assets (net)	3	3		-4	-4	1	7			8
Operating Income	1,373	1,298	1,929	1,109	5,709	1,488	1,177	1,985	1,301	5,951
Equity in earnings of unconsolidated affiliates	43	44	50	25	162	44	-1,968	27	39	-1,858
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	115	89	104	122	430	46	137	108	132	423
Total other income/expenses	158	133	154	147	592	90	-1,831	135	171	1,435
Interest expense	543	542	572	547	2,204	551	554	553	553	2,211
Income from Cont Ops before Income Taxes	988	889	1,511	709	4,097	1,027	-1,208	1,567	919	2,305
Income tax expense	95	141	188	95	519	137	316	235	138	194
Income from Cont Operations	893	748	1,323	614	3,578	890	-892	1,332	781	2,111
Income (loss) from Discontinued Ops				-7	-7					
Net Income	907	748	1,323	607	3,571	890	-892	1,332	781	2,111
Net Income/loss attributable to non-controlling interest	7	84	19	67	177	48	90	4	63	205
Net Income attributable to Duke Energy	900	820	1,327	660	3,707	899	-802	1,289	679	2,065
Diluted EPS	$1.24	$1.12	$1.82	$0.88	$5.07	$1.24	($1.13)	$1.75	$0.92	$2.78
Net Income from discon ops attributable shareholders										
Diluted EPS	$1.24	$1.12	$1.82	$0.88	$5.07	$1.24	($1.13)	$1.75	$0.92	$2.78
Adjustments			($0.03)	$0.03	($0.01)	($0.10)	$2.21	$0.14	$0.06	$2.31
Adjusted Diluted EPS	$1.24	$1.12	$1.79	$0.91	$5.06	$1.14	$1.08	$1.89	$0.98	$5.09

Important Disclosures



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 1.51x book value/share of $63.42/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. A negative coal ash decision from regulators could cause a decline in DUK's share price. Additionally, negative equity/credit markets, large selling volumes in DUK's stock, terrorist attacks, wars, geopolitical isues,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.

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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

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