CAPITOL SECURITIES MANAGEMENT, INC.

EQUITY RESEARCH

September 27, 2021

CURRENT PRICE:	**$97.63**
RATING:	**BUY**
PRICE TARGET:	**$104**
CURRENT YIELD:	**4.0%**

EPS Estimates

	DEC 20A	DEC 21E
1Q	$1.14	$1.26A
2Q	$1.08	$1.15A
3Q	$1.87	$1.79
4Q	$1.03	$1.03
	$5.12	**$5.23**

Trading Data

52-WEEK PRICE RANGE:	**$108.38-$80.95**
SHARES OUTSTANDING:	**769(M)**
MARKET CAP:	**$75,078(M)**
AVG. DAILY TRADING VOLUME:	**2.8(M)**
S&P 500:	**4,443**

Valuation Data

BOOK VALUE:	**$60.04**
PRICE TO BOOK:	**1.63x**
DIVIDEND:	**$3.94**

Duke Energy (NYSE: DUK)

2Q21 Earnings & Dividend Increase

Highlights

- Adjusted diluted 2Q21 earnings of $1.15/share vs. $1.08/share
- Improvement in Electric Infrastructure's segment income
- Activist investor, Elliot Management, wants DUK to spinoff assets
- DUK increased annual dividend 2.1%
- Maintain BUY rating & raising price target to $104/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 4.0% dividend yield, and offers dividend/earnings growth potential going forward. DUK is rated BUY and our price target is $104/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 merged with Progress Energy in 2014 creating one of the largest electric utilities in the US and acquired Piedmont Natural Gas in 2016.

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 2Q21 operating earnings of $0.96/share vs. ($1.13)/share during 2Q20. The improvement was mainly due to the lack of charges (~$2 billion) taken during 2Q20 for the cancellation of the Atlantic Coast Pipeline (ACP). The cancellation of ACP did produce a lower tax rate of 4.9% vs. 26.2%, when comparing the two quarters, and helped improve earnings results for 2Q21. Total revenues rose to $5.76 billion from $5.42 billion, operating expenses increased to $4.59 billion from $4.25 billion, and net income improved to $668 million from a loss of $892 million. 2Q21's adjusted earnings improved to $1.15/share from $1.08/share during 2Q20. On an adjusted segment basis, results improved at DUK's Electric Utilities & Infrastructure and Gas Utilities & Infrastructure units while declining at Commercial Renewables and Other. The difference between 2Q21's operating earnings and adjusted earnings is due to exiting gas pipeline investment obligations and one-time impacts of the redefining workplace initiative, done by DUK during last year's pandemic, resulting in a workplace square footage reduction of 60% and created annual savings of $25 million - $30 million.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: Both reported and adjusted, segment income improved to $935 million from $735 million, when comparing 2Q21 to 2Q20, equating to an improvement of $0.24/share. The increase was due to positive contributions from recent rate cases (+$0.13/share), higher sales volumes (+$0.08/share), higher wholesale earnings (+$0.05/share), other margins (+$0.04/share), and were partly offset by higher O&M expenses (-$0.07/share). These results exclude the impact of share dilution (-$0.04/share) during 2Q21.

Total consolidated electric sales grew 6.6% to 60,459 GWh from 56,725 GWh, when comparing the two quarters, with the increase attributable to the US economy re-opening following the 2020 pandemic lockdown. Wholesale/other sales rose 9.1% and total retail sales increased 6.1%.

GAS UTILITIES & INFRASTRUCTURE: Reported 2Q21 income of $17 million vs. ($1.58 billion) during 2Q20 While both quarters incurred charges for the cancellation of the ACP, the majority of charges were taken during 2Q20, thus producing negative results. These charges were special items and excluded from adjusted results for this segment.

Adjusted segment income was $29 million during 2Q21 compared to $50 million in 2Q20. The results represent a decrease of $0.06/share, which excludes share dilution of $0.01/share. Lower 2Q21 results came from certain renewable projects placed in service during the prior year, penalizing earnings by $0.05/share.

Total gas sales increased 9.5% to 106.0 million dekatherms at the Piedmont Natural Gas local distribution company (LCD) and decreased to 14.8 million dekatherms at the Duke Energy Midwest LDC.

COMMERCIAL RENEWABLES: Both reported and segment income fell to $47 million during 2Q21, compared to $90 million during 2Q20. The decrease came from certain renewable projects placed in service the prior year and caused earnings to decline $0.05/share, excluding dilution of $0.01/share. Renewable plant production rose 4.8% to 2,787 GWh from 2,660 GWh.

OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from captive insurance company. This unit reported a segment loss of $248 million compared to last year's quarter loss of $84 million. 2Q21's higher loss resulted from workplace realignment costs and these were treated as special items-excluded from adjusted results.

2Q21's adjusted income produced a net loss of $113 million compared to a loss of $84 million during 2Q20, equating to ($0.04)/share, and when factoring in share dilution, results would have been ($0.05)/share. Lower results came from higher income tax expense (-$0.05/share) & was partly offset by a decrease in financing costs (+$0.01/share).

HEDGE FUND TAKES POSITION IN DUKE ENERGY

This past May activist investor Elliott Management, which owns a stake in the company, and seeks seats on the Board of Directors, asked DUK to split itself into three separate companies representing its three main utility operating areas, the Carolinas, Florida, & Midwest utilities (OH & IN). DUK's rejected this proposal. However, as seen in similar situations in the past, there may be more to come regarding Elliott Management's attempt to direct DUK's business strategy. In our opinion, potentially four scenarios could unfold: 1) Elliott Management attempts to gain enough seats on the Board of Directors to force DUK's hand, 2) Elliott Management fails to gain support on the Board of Directors for its objectives, 3) Another entity joins the fray & sides with either Duke management or Elliott Management, or 4) Elliott Management abandons its ambitions to split DUK into three different companies and sells its shares in DUK.

CONFERENCE CALL SUMMARY: Following the 2Q21 earnings release the company held its quarterly conference call. Below are some of the talking points made by management.

-The company reaffirmed 2021 adjusted earnings guidance of $5.00-$5.35/share and a long term goal of 5%-7% annual earnings growth through 2025 off of the midpoint of 2021 earnings guidance range.

-Improvement in 2Q21's adjusted earnings was due to improved results in the Electric Utilities & Infrastructure unit, benefits from base rate increases, favorable riders/weather, and higher electric sales (+6.6%).

-DUK expects electric load growth of 1%-2% during 2021.

-Management anticipates closing the minority sale of Duke Indiana Energy to GIC at an attractive premium vs. its current public equity valuation. This deal, awaiting FERC approval for completion, will satisfy DUK's equity needs for five years.

-DUK is moving ahead with its five year $59 billion growth capital plan with renewables playing a key part in its forward operating strategy. Construction continued on approximately 250 MWs of new solar projects in NC & FL. Additionally, the 144 MW Pflugerville TX solar project was commissioned, as was the 182 MW Maryneal TX wind project.

-Management expects completion of these projects will increase the solar/wind resources to 10,000 MWs, with an overall goal of having 16,000 MWs in renewable generation by 2025 and 24,000 MWs by 2030. The end goal is to have 40% of all electrical generation from renewables by 2050.

-The company submitted applications to renew the Oconee Nuclear Plant's operating licenses by another 20 years. Management expects to do the same for its other nuclear plants.

-DUK continued to work with regulators in IN, NC, SC, & FL regarding its integrated resource plans (IRP). SC regulators requested more data on the IRP and NC will hold additional proceedings to determine the next steps forward. In FL, DUK received the final order for the IRP this past June approving the multiyear rate plan settlement.

-In IN, the regulators approved Step 2 of DUK's 2019 rate case which will update the rate base through 2020 and "trues up carrying costs back to 1/1/21"

-DUK's Piedmont Natural Gas unit filed a rate request currently being reviewed by NC regulators, which includes covering construction costs of the Robeson County gas storage facilities. In KY, DUK filed a request to recover $190 million in costs for a variety of capital projects throughout the state.

OUR THOUGHTS

Given DUK's 4% dividend yield and potential growth of both earnings and the dividend, over the next few years, we rate this stock a BUY and recommended it for income/growth investors. DUK's business model shift towards renewable energy sources could set the stage for future earnings growth. Following 2Q21's earnings results, management reaffirmed 2021 adjusted earnings guidance $5.00-$5.35/share and annual earnings growth of 5%-7% through 2025. If this earnings scenario materializes, investors could see continued increases in DUK's dividend. The Board of Directors recently raised the annual dividend 2.1% to $3.94/share from $3.88/share, marking the 15th consecutive year of dividend increases for shareholders. Our price target is $104/share, equating to 1.73x DUK's current book value of $60.04/share.

Risks To Our Price Target

Failure of DUK to grow cash flow/earnings. There is no guarantee a move to renewable energy sources will benefit company operations. Declining earnings from its three operating units. Additionally, if DUK is successful in growing future earnings, there is no guarantee it will reach our price target. 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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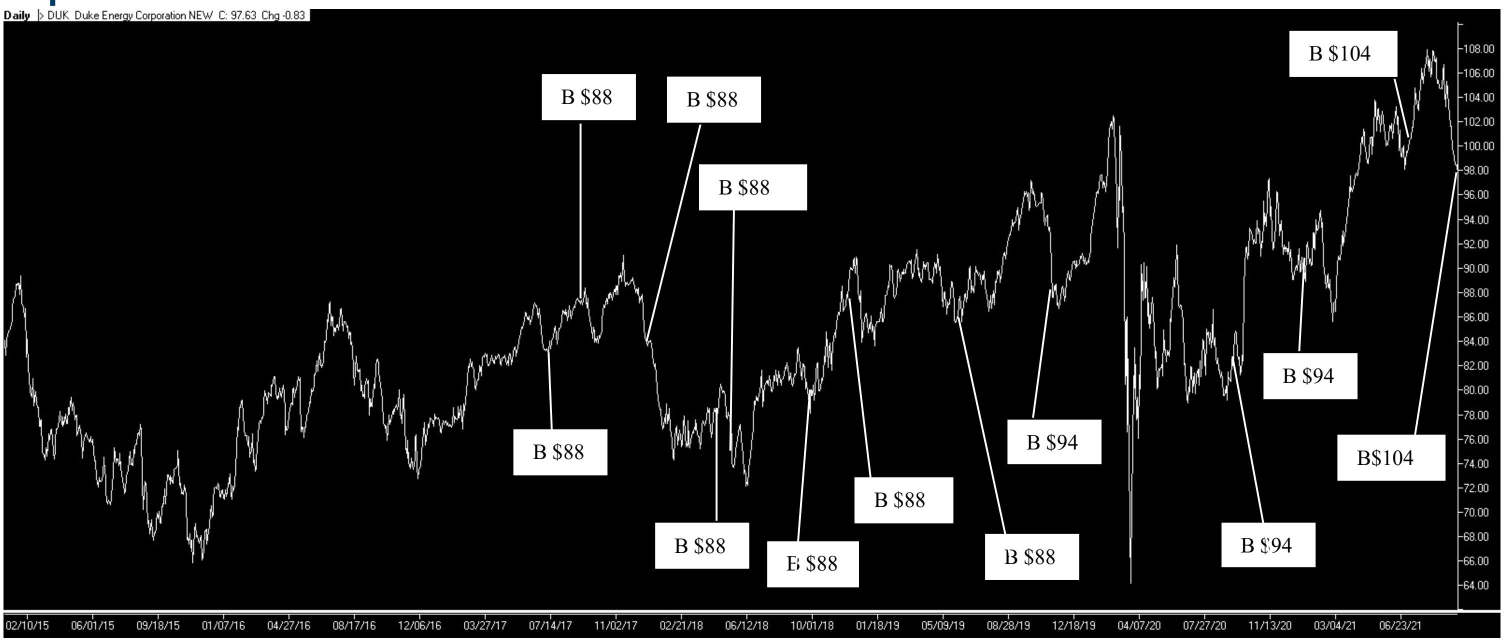
Capitol Securities Management, Inc. — Equity Research

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

	1Q20	2Q20	3Q20	4Q20	FY20	1Q21	2Q21	3Q21e	4Q21e	FY21e
Operating Revenues:										
Regulated electric	$5,124	$4,963	$6,315	$5,059	$21,461	$5,219	$5,258	$6,378	$5,237	$22,092
Non-regulated electric/natgas/other	187	195	214	191	651	182	198	225	206	811
Regulated natural gas	638	263	192	527	1,642	749	302	383	549	1,983
Total Operating revenues	5,949	5,421	6,721	5,777	23,868	6,150	5,758	6,986	5,992	24,886
Operating Expenses:										
Fuel elecctric gen. & purchased power-reg	1,447	1,349	1,849	1,406	6,051	1,443	1,419	1,925	1,468	6,255
Cost of natural gas & coal sold	199	59	41	161	460	276	79	52	264	671
Operation, maintenance, & other	1,339	1,353	1,450	1,646	5,788	1,402	1,410	1,472	1,522	5,806
Depreciation & Amortization	1,130	1,150	1,217	1,208	4,705	1,226	1,207	1,253	1,258	4,944
Property & other taxes	345	334	324	334	1,337	353	349	356	358	1,416
Impairment charges	2	6	28	948	984		151			
Total Operating expenses	4,462	4,251	4,909	5,703	19,325	4,700	4,591	5,058	4,870	19,219
Gains/losses sale of other assets (net)	1	7	2		10		2	4	2	8
Operating Income	1,488	1,177	1,814	74	4,553	1,450	1,169	1,932	1,124	5,675
Equity in earnings of unconsolidated affiliates	44	-1,968	-80	-1	-2,005	-17	9	36	96	124
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	46	137	127	143	453	127	128	42	116	413
Total other income/expenses	90	-1,831	47	142	-1,552	110	137	78	212	537
Interest expense	551	554	522	535	2,162	535	572	537	537	2,181
Income from Cont Ops before Income Taxes	1,027	-1,208	1,339	-319	839	1,025	734	1,473	799	4,031
Income tax expense	137	316	105	-162	236	84	36	192	103	415
Income from Cont Operations	890	-892	1,234	-157	1,075	941	698	1,281	696	3,616
Income (loss) from Discontinued Ops					7					
Net Income	890	-892	1,234	-157	1,082	941	698	1,281	696	3,616
Net Income/loss attributable to non-controlling interest	48	90	70	87	295	51	67	24	39	181
Net Income attributable to Duke Energy	899	-802	1,304	-70	1,270	992	751	1,305	735	3,783
Diluted EPS	$1.24	($1.13)	$1.74	($0.12)	$1.72	$1.25	$0.96	$1.70	$0.96	$4.87
Net Income from discon ops attributable shareholders										
Diluted EPS	$1.24	($1.13)	$1.74	($0.12)	$1.72	$1.25	$0.96	$1.70	$0.96	$4.87
Adjustments	($0.10)	$2.21	$0.13	$1.15	$3.40	$0.01	$0.19	$0.09	$0.07	$0.36
Adjusted Diluted EPS	$1.14	$1.08	$1.87	$1.03	$5.12	$1.26	$1.15	$1.79	$1.03	$5.23

Important Disclosures



7/6/21 Raise Price Target to $104
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

$104 price target equates to 1.73x book value/share of $60.04/share

RISKS TO OUR PRICE TARGET: Failure of DUK to grow cashflow or earnings. There is no guarantee a move to renewable energy sources will benefit company profitability. Declining earnings from its' 3 operating units,. Addtionally, if DUK is successful in growing future earnings,there is no guarantee it will reach our price target. 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 political/environmental issues, 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) 50%, (2) 50, (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

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