



October 19, 2022

**CURRENT PRICE:** \$89.29  
**RATING:** BUY  
**PRICE TARGET:** \$110  
**CURRENT YIELD:** 4.5%

### EPS Estimates

|    | DEC 21A       | DEC 22E       |
|----|---------------|---------------|
| 1Q | \$1.26        | \$1.30A       |
| 2Q | \$1.15        | \$1.14A       |
| 3Q | \$1.88        | \$1.88        |
| 4Q | \$0.94        | \$1.03        |
|    | <b>\$5.24</b> | <b>\$5.35</b> |

### Trading Data

52-WEEK PRICE RANGE: **\$116.33-\$83.76**  
 SHARES OUTSTANDING: **770(M)**  
 MARKET CAP: **\$68,753(M)**  
 AVG. DAILY TRADING VOLUME: **2.8(M)**  
 S&P 500: **3,695**

### Valuation Data

BOOK VALUE: **\$62.01**  
 PRICE TO BOOK: **1.44x**  
 DIVIDEND: **\$4.02**

## Duke Energy (NYSE: DUK)

*2Q22 Earnings & Moving towards "Green"*

### Highlights

- Adjusted diluted 2Q22 earnings of \$1.14/share vs. \$1.15/share
- Increasing investments in green energy
- Examining long-term fit of Commercial Renewables unit
- Annual dividend increased 2% to \$4.02/share
- Maintain BUY rating & raising price target to \$110/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 4.5% dividend yield and offers dividend/earnings growth potential going forward. DUK is rated BUY and our price target is \$110/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 8.2 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 50,000 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. The gas unit provides natural gas to 1.6 million customers in KY, NC, OH, SC, & TN.

*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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# EQUITY RESEARCH

## Recent Earnings

DUK reported 2Q22 operating earnings of \$1.14/share vs. \$0.96/share during 2Q21. Results improved due to higher revenues (\$6.7 billion vs. \$5.8 billion) driven by rate increases, higher electric sales, and favorable weather. The rise in revenues more than offset an increase of operating expenses (\$5.3 billion vs. \$4.6 billion). Operating expenses increase came from higher fuel expense used in electric generation/purchased power, natural gas costs, and arise in O&M, DD&A, property taxes. As a result, operating income rose to \$1.4 billion from \$1.2 billion. When comparing the two quarters, adjusted earnings per share was \$1.14/share vs. \$1.15/share. 2Q22's adjusted earnings were impacted by higher O&M expense from plant outage timing in the Electric Utilities & Infrastructure unit, in addition to the impact of GIC minority interest. These were partly offset by favorable weather, higher sales volumes, and increased rate case contributions.

## SEGMENT RESULTS

**ELECTRIC UTILITIES & INFRASTRUCTURE:** 2Q22's operating segment income rose to \$974 million from \$935 million during 2Q21. The improvement came was the result of favorable weather in DUK's service territory and higher revenue from newly enacted rate cases. Results were impacted by the 2022 Indiana Supreme Court ruling on DUK's treatment of coal ash, was seen as a special item, and excluded from adjusted earnings.

On a quarter-to-quarter comparison, adjusted operating segment income improved to \$958 million from \$935 million, equating to an increase of \$0.03/share. The higher results came from favorable weather (+\$0.09/share) and rate case contributions (+\$0.04/share). These were partly offset by increased O&M expense (-\$0.07/share) and GIC minority interest impact (-\$0.03/share).

Total consolidated electric sales grew 6.7%, to 64,485 GWh from 60,459 GWh, when comparing the two quarters. The improvement came from higher wholesale/other (+16.2%) and retail sales (+4.8) due to continued growth in the US economy after emerging the covid pandemic.

**GAS UTILITIES & INFRASTRUCTURE:** Operating segment income during 2Q22 rose to \$19 million from \$17 million in 2Q21. Adjusted operating segment income declined to \$19 million from \$29 million when comparing the two quarters, equating to a decrease of \$0.02/share. The decrease came from higher O&M expenses (-\$0.01/share), rise in interest expense (-\$0.01/share), and lower AFUDC equity (-\$0.01/share). These were partly offset by riders and other retail margin (+0.01/share). 2Q21's results included costs related to the cancellation of the Atlantic Coast Pipeline project and these charges were excluded from adjusted earnings.

Total gas sales increased 19.3% to 126.5 million dekatherms at the Piedmont Natural Gas local distribution company (LDC) and rose 11.4% to 16.5 million dekatherms at the Duke Energy Midwest LDC.



# EQUITY RESEARCH

**COMMERCIAL RENEWABLES:** 2Q22's operating segment income decreased to \$30 million from \$47 million during 2Q21. The decline came from the net impact of derivative instruments which did not qualify for hedge accounting and regulatory treatment. These special item charges were excluded from adjusted earnings. Adjusted segment earnings declined to \$46 million from \$47 million. When comparing the two quarters, renewable plant production increased 23.1% to 3,430 GWh from 2,787 GWh.

**OTHER:** OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from DUK's captive insurance company. Operating segment income, when comparing the two quarters produced an operating loss of \$130 million vs. an operating loss of \$248 million. Adjusted operating segment income generated an operating loss of \$130 million vs. an operating loss of \$113 million, equating to a loss of \$0.02/share. The lower results came from lower returns on investments (-\$0.05/share) and higher interest expense (-\$0.01/share). These were partly offset by higher results from DUK's National Methanol Corporation (+\$0.03/share). 2Q21 results included workforce realignment and workplace costs which were treated as special items and excluded from earning results.

## RECENT DEVELOPMENTS:

Duke Energy FL filed to refund \$56 million in annual federal corporate tax savings to customers created by the Inflation Reduction Act which positively impacted DUK. The savings were related to tax changes related to production tax credits associated with solar investments.

Duke Energy Progress requested a rate review by North Carolina Public Utilities Commission regarding planned spending, during the next three years, for improvements in the electric grid infrastructure, upgrades to reduce power outages, and creating a two-way renewables grid structure. The request would increase a residential customer's bill by 16% over three years.

In South Carolina, DUK introduced a "Renewable Choice" program allowing large-load customer to purchase power from one of its South Carolina utilities which would include renewable energy certificates and 3<sup>rd</sup> party owned generation assets. Energy storage options could also be chosen through the program.

Duke Energy Progress requested the Public Service Commission of SC to review proposals for rate increases. If approve, residential customer bills would rise 14.7% and commercial/industrial would increase 7.8%.

On 10/4/22 DUK updated its strategy on transitioning towards clean energy. Management increased its capital investment program by \$10 billion to \$145 billion during the next decade. 85% of these investments will be to transition its generation fleet and grid modernization. \$75 billion will go towards modernization and hardening the transmission/distribution infrastructure. \$40 billion planned for zero-carbon generation (solar, wind, & battery storage) and extending the life of its nuclear plants. \$5 billion will be committed to hydrogen-enabled natural gas technologies. The timing of this spending will be subject to regulatory approval.





DUK unveiled the “Charger Prep Credit Program” which helps NC residents cover the cost of EV charging infrastructure through credits for residential/commercial customers installing Level-2 or higher-powered chargers.

In new executive appointments, Brian Savoy was named executive vice president and CFO for DUK and Steve Young was named new Chief Commercial Officer.

## OUR THOUGHTS

DUK reported 2Q22 operating earnings of \$1.14/share vs. \$0.96/share during 2Q21. Results improved due to higher revenues (\$6.7 billion vs. \$5.8 billion) driven by rate increases, higher electric sales, and favorable weather. The rise in revenues more than offset an increase of operating expenses (\$5.3 billion vs. \$4.6 billion). When comparing the two quarters, adjusted earnings per share was \$1.14/share vs. \$1.15/share. Management reaffirmed 2022 adjusted earning guidance of \$5.30-\$5.60/share and its move towards “greener generation”. Overall plans are to achieve “carbon-neutrality” by 2050 and retire most of its coal burning fleet and replace with carbon-free dispatchable resources. DUK will examine the fit of its Commercial Renewables business into its long-term business plans. During the 2Q22 earnings call, management claimed the book value of Commercial Renewables’ assets is approximately \$4 billion.

After recently hovering around \$112/share this past August, DUK’s stock has fallen to its current price of \$89.29/share due to increased volatility in the US stock market and concerns over rising interest rates produced by the Federal Reserve. However, we recommend DUK for income/growth investors due to its current dividend yield of 4.5% and potential earnings growth. The annual dividend was raised to \$4.02/share this past August and the potential of future dividend increases may occur based on DUK’s earnings growth projections. To this end, management recently affirmed 5%-7% annual adjusted earnings growth during the next four years. DUK is rated a BUY and our price target is \$110/share, equating to 1.77x DUK’s current book value of \$62.01/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 failure to 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)

|  | 1Q21    | 2Q21    | 3Q21    | 4Q21    | FY21     | 1Q22    | 2Q22    | 3Q22e   | 4Q22e   | FY22e    |
|--|---------|---------|---------|---------|----------|---------|---------|---------|---------|----------|
| Operating Revenues:                                      |         |         |         |         |          |         |         |         |         |          |
| Regulated electric                                       | \$5,219 | \$5,258 | \$6,495 | \$5,347 | \$22,319 | \$5,933 | \$6,074 | \$6,587 | \$5,469 | \$24,603 |
| Non-regulated electric/natgas/other                      | 182     | 198     | 263     | 694     | 2,008    | 1,002   | 425     | 612     | 628     | 2,667    |
| Regulated natural gas                                    | 749     | 302     | 193     | 197     | 770      | 197     | 186     | 204     | 243     | 830      |
| Total Operating revenues                                 | 6,150   | 5,758   | 6,951   | 6,238   | 25,097   | 7,132   | 6,685   | 7,403   | 6,340   | 27,560   |
| Operating Expenses:                                      |         |         |         |         |          |         |         |         |         |          |
| Fuel electric gen. & purchased power-reg                 | 1,443   | 1,419   | 1,844   | 1,553   | 6,255    | 1,817   | 1,972   | 1,725   | 1,641   | 7,155    |
| Cost of natural gas & coal sold                          | 276     | 79      | 75      | 275     | 705      | 481     | 189     | 384     | 352     | 1,406    |
| Operation, maintenance, & other                          | 1,402   | 1,410   | 1,507   | 1,723   | 6,042    | 1,630   | 1,447   | 1,623   | 1,326   | 6,026    |
| Depreciation & Amortization                              | 1,226   | 1,207   | 1,265   | 1,292   | 4,990    | 1,320   | 1,302   | 1,364   | 1,378   | 5,364    |
| Property & other taxes                                   | 353     | 349     | 371     | 316     | 1,389    | 392     | 379     | 363     | 324     | 1,458    |
| Impairment charges                                       |         | 151     | 211     | 14      | 356      | 215     | 9       | 27      | 12      | 254      |
| Total Operating expenses                                 | 4,700   | 4,591   | 5,273   | 5,173   | 19,737   | 5,855   | 5,280   | 5,306   | 5,033   | 21,622   |
| Gains/losses sale of other assets (net)                  |         | 2       | 9       | 2       | 13       | 2       | 8       |         |         | 10       |
| Operating Income   | 1,450   | 1,169   | 1,687   | 1,067   | 5,373    | 1,279   | 1,413   | 2,097   | 1,307   | 6,096    |
| Equity in earnings of unconsolidated affiliates          | -17     | 9       | 22      | 14      | 28       | 25      | 36      | 6       | 12      | 79       |
| Impairments/Gains on unconsol affiliates sales           |         |         |         |         |          |         |         |         |         |          |
| Other Income/Expenses                                    | 127     | 128     | 238     | 150     | 643      | 89      | 115     | 129     | 74      | 407      |
| Total other income/expenses                              | 110     | 137     | 260     | 164     | 671      | 114     | 151     | 135     | 86      | 486      |
| Interest expense   | 535     | 572     | 581     | 592     | 2,280    | 587     | 607     | 596     | 598     | 2,388    |
| Income from Cont Ops before Income Taxes                 | 1,025   | 734     | 1,366   | 639     | 3,764    | 806     | 957     | 1,636   | 795     | 4,194    |
| Income tax expense                                       | 84      | 36      | 90      | 18      | 192      | 14      | 77      | 245     | 119     | 455      |
| Income from Cont Operations                              | 941     | 698     | 1,276   | 657     | 3,572    | 820     | 880     | 1,391   | 676     | 3,767    |
| Income (loss) from Discontinued Ops                      |         |         |         |         | 7        |         |         |         |         |          |
| Net Income   | 941     | 698     | 1,276   | 657     | 3,579    | 820     | 880     | 1,391   | 676     | 3,767    |
| Net Income/loss attributable to non-controlling interest | 51      | 67      | 129     | 82      | 329      | 37      | 27      | 46      | 83      | 193      |
| Income from disc. Operations                             |         |         |         | 7       |          | 7       |         |         |         | 7        |
| Net Income attributable to Duke Energy                   | 992     | 751     | 1,366   | 732     | 3,802    | 818     | 893     | 1,437   | 759     | 3,907    |
| Diluted EPS  | \$1.25  | \$0.96  | \$1.79  | \$0.93  | \$4.94   | \$1.08  | \$1.14  | \$1.87  | \$0.99  | \$4.88   |
| Net Income from discon ops attributable shareholders     |         |         |         |         |          |         |         |         |         |          |
| Diluted EPS  | \$1.25  | \$0.96  | \$1.79  | \$0.93  | \$4.94   | \$1.08  | \$1.14  | \$1.87  | \$0.99  | \$5.08   |
| Adjustments  | \$0.01  | \$0.19  | \$0.09  | \$0.01  | \$0.30   | \$0.22  | \$0.00  | \$0.01  | \$0.04  | \$0.27   |
| Adjusted Diluted EPS                                     | \$1.26  | \$1.15  | \$1.88  | \$0.94  | \$5.24   | \$1.30  | \$1.14  | \$1.88  | \$1.03  | \$5.35   |

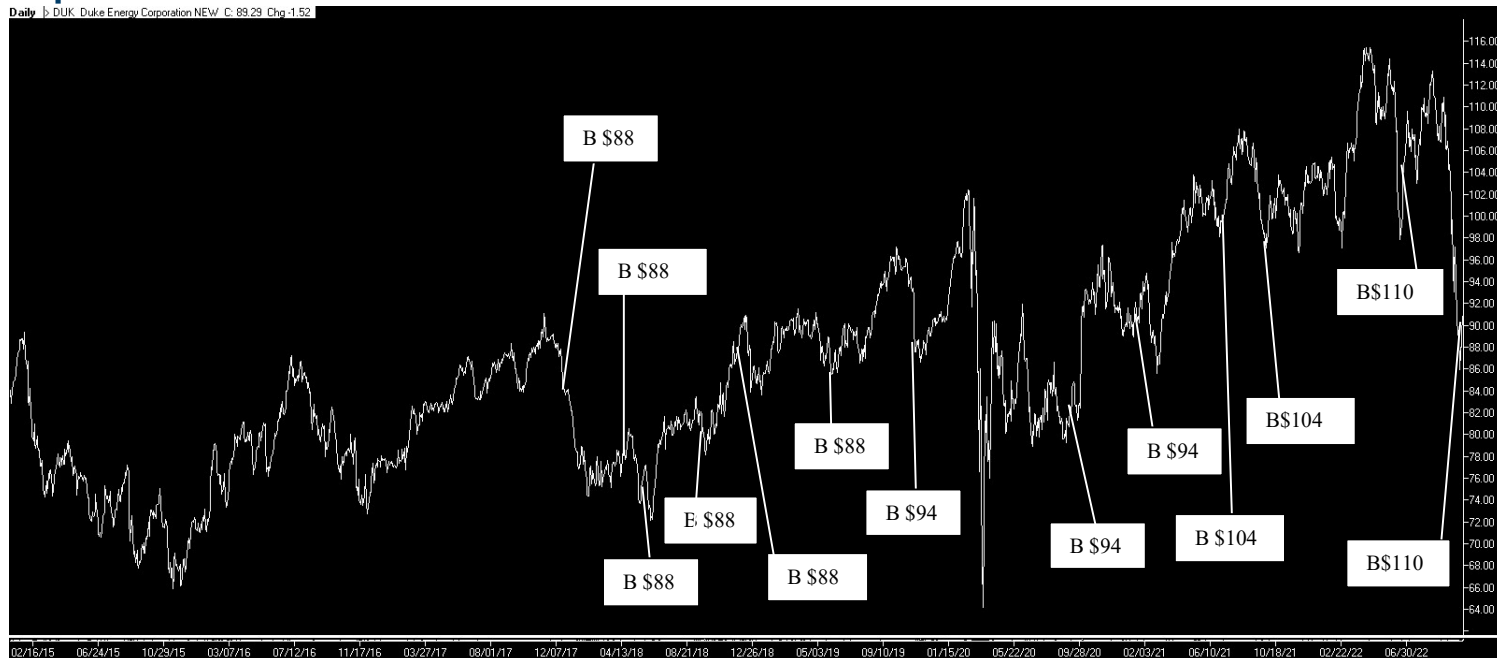


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# EQUITY RESEARCH

## Important Disclosures

Daily J: DUK Duke Energy Corporation NEW C: 89.29 Chg: -1.52



6/28/22 Raise Price Target to \$110  
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

\$110 price target equates to 1.77x book value/share of \$62.01/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,. 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 cause a decline in DUK's share price. Additionally, negative equity/credit markets, large selling volumes in DUK's stock, terrorist attacks, wars, geopolitical issues, US political/environmental issues, 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

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- (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.





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