

August 14, 2023

CURRENT PRICE: \$92.79
RATING: BUY
PRICE TARGET: \$110
CURRENT YIELD: 4.4%

EPS Estimates

	DEC 22A	DEC 23E
1Q	\$1.29	\$1.20A
2Q	\$1.14	\$0.91A
3Q	\$1.78	\$2.16
4Q	\$1.11	\$1.28
	\$5.27	\$5.55

Trading Data

52-WEEK PRICE RANGE: \$113.67-\$83.76
 SHARES OUTSTANDING: 771(M)
 MARKET CAP: \$71,541(M)
 AVG. DAILY TRADING VOLUME: 2.9(M)
 S&P 500: 4,490

Valuation Data

BOOK VALUE: \$60.14
 PRICE TO BOOK: 1.54x
 DIVIDEND: \$4.10

Duke Energy (NYSE: DUK)

2023 Earnings Results-Maintain Buy rating

Highlights

- Adjusted diluted 2Q23 earnings of \$0.91/share vs. \$1.09/share
- Cool weather hurts 2Q23 results
- Announced sale of the Commercial Renewables unit
- Annual dividend increased 2%
- Maintain BUY rating & \$110/share price target

Investment Thesis

Wall Street expects the US economy to continue 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 4.4% 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.



EQUITY RESEARCH

Recent Earnings

DUK reported 2Q23 operating earnings of (\$0.32)/share vs. \$1.14/share during 2Q22. 2Q23's results were mainly impacted by the \$1 billion impairment charge associated with the upcoming sale of the Commercial Renewables business and cooler-than-normal weather in DUK's utility service territory. When comparing the two quarters operating income rose to \$6.57 billion from \$6.56 billion and operating expenses increased to \$5.18 billion from \$5.12 billion. Operating segment income decreased to \$1.42 billion from \$1.45 billion. This occurred as operating segment income declined in the Electric Utility & Infrastructure unit while increasing in the Gas Utilities & Infrastructure unit. Adjusted operating earnings declined to \$0.91/share from \$1.09/share. These results came from unfavorable weather conditions (cooler temperatures), lower sales volumes, and higher interest/depreciation expenses. These were partly offset by growth riders and other retail margin, lower O&M expenses, and favorable rate case impacts.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: Operating segment income fell to \$850 million from \$974 million. These results were impacted by 2022 Indiana Supreme Court ruling related to coal ash, cooler-than-normal weather, and higher interest/depreciation expenses. Partly offsetting these negative factors was growth from revenue riders and other retail margin. Adjusted operating segment income decreased to \$850 million from \$958 million also due to the factors stated above-except for the Indiana Supreme Court ruling. On an adjusted basis, DUK estimates these factors penalized earnings by \$0.14/share when compared to last year's quarter.

When comparing 2Q23 to 2Q22 total electric sales fell 6.8% to 60,114 GWh from 64,485 GWh due to decreases in unbilled sales (-56.5%), wholesale/other (-13.2%), residential (-5.7%), other energy sales (-4.2%), and general service (-0.4%). These were partly offset by higher industrial sales (+1.7%).

GAS UTILITIES & INFRASTRUCTURE: Both reported and adjusted operating segment income improved to \$25 million from \$19 million. The improved results came from higher margins and customer growth. DUK estimates these factors added \$0.01/share to earnings when compared to last year's quarter.

Total gas sales decreased at DUK's two LDCs, Piedmont Natural Gas LDC and Duke Energy Midwest LDC. Piedmont Natural Gas LDC's sales fell 3.4% to 122.24 dekatherms and Duke Energy Midwest LDC's declined 16.1% to 13.91 dekatherms. The declines came from cooler-than-normal weather during 2Q23.

OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from DUK's captive insurance company. Both reported and adjusted segment results decreased to -\$161 million from -\$126 million. On an adjusted basis, it equated to a decline of \$0.05/share, due to mainly to higher interest expense. This was partially offset by higher returns on DUK's investments.



DISCONTINUED OPERATIONS: This includes impairments recorded for the sale of DUK's Commercial Renewables business and the operating results of this unit. The sale of this business is expected to close by YE23. During 2Q23, reported GAAP results, net of tax, includes an impairment loss on the sale of the Commercial Renewables unit of approximately \$1 billion.

RECENT DEVELOPMENTS:

During the 2Q23 earnings call, management reaffirmed annual EPS growth of 5%-7% per year through 2027 and 2023 earnings guidance of \$5.55-\$5.75/share. DUK anticipates higher FY23 revenues from recent rate increases and \$300 million in cost savings related to business/corporate support cost structures. Management is also targeting flat O&M expense levels through 2024-2027.

The Board of Directors recently increased the annual dividend by 2% to \$4.10/share. This represents the 17th consecutive year of dividend increases for common stock shareholders.

DUK announced an agreement to sell its Commercial Renewables unit to Brookfield Renewable at an enterprise value of \$2.8 billion, including non-controlling tax equity interests and the assumption of debt. The deal is expected to close by YE23.

A partnership between Amazon (AMZN-\$) and DUK developed a rooftop solar array, consisting of 5,600 photovoltaic panels, on top of an Amazon warehouse adjacent to the Cincinnati/Northern Kentucky International Airport. This facility will generate approximately 2 MWs of solar power.

Duke Energy Indiana signed an agreement with Ranger Power to purchase up to 199 MWs of solar power, under a 20-year agreement, from its Speedway Solar facility. This facility began construction in March 2023 & is expected to begin operations during 3Q25.

DUK announced the sale of its commercial distribution generation business to an affiliate of ArcLight Capital Partners LLC for \$364 million.

DUK bought two additional solar projects online in the FL counties of Bay and Levy. The Bay Ranch Renewable Energy Center, built on 650 acres in Bay County, generates approximately 74.9 MWs of electricity with 220,000 single axis tracking solar panels. The Hardeetown Renewable Energy Center, built on 750 acres in Levy County, generates 74.9 MWs of electricity with 200,000 single axis tracking solar panels.



Duke Progress Energy filed with the Public Service Commission of SC to recover fuel costs used for electrical generation provided to the state's electric customers. This is expected to raise monthly residential rates by 3.7% and industrial rates by 2.7% starting 8/1/23.

Duke Energy Progress proposed annual adjustments, to the North Carolina Utility Commission (NCUC), to recover fuel costs used in electrical generation for NC customers. If approved by the NCUC, then residential rates would rise 4.3% by the end of 2023.

The company released its "IMPACT REPORT" which highlighted DUK's goals, performance/progress on strategic business priorities, and allows shareholders to chart the progress of this report. Highlights include plans to invest \$145 billion over the next 10 years in critical energy infrastructure, continuing to decarbonize its operations, and reduce overall carbon emissions 50% by 2030 from 2005's emission levels. Additionally, DUK plans to expand its net-zero program by 2050 to include Scope 2, some Scope 3 emissions, and decarbonize its natural gas business.

Oscar Suris was named Senior Vice President and Chief Communications Officer, replacing Selim Bingol who retired from DUK.

DUK sold \$1.5 billion of 4.125% convertible senior notes due 2026 in a private placement offering this past April. These funds will be used to repay a portion of its outstanding commercial paper and for general corporate purposes.

Indiana regulators approved Duke Indiana's request to lower customer bills due to recent declines in fuel/purchased power costs. Potentially, this could translate into a decrease of 16% in rates. This decrease will be in effect from April 2023 to June 2023. Indiana customers' electric rates are adjusted four times a year based on current market fuel costs.

DUK announced it was expanding its battery storage capabilities and began the commercial operation of NC's largest battery system with an 11 MWs capacity located in Onslow County. The battery system will be used in conjunction with an adjacent 13 MW solar facility in Lejuene NC. Both sites can also operate independently of each other.

Duke Energy Florida began construction of a floating solar array pilot at the Hines Energy Complex located in Polk County FL. The floating facility will have the capacity to generate 1 MW of electricity.



EQUITY RESEARCH

OUR THOUGHTS

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Lately, DUK's shares have come under pressure, as have all utility stocks, due to rising interest rates. Investor demand for these shares could increase if interest rates begin to decline or DUK comes through on its earnings guidance. While 2Q23's earnings were negatively affected by cooler-than-normal weather, we recommend DUK for income/growth investors seeking the potential of increasing dividends from forward earning growth. To this end, management reiterated its annual earnings growth guidance of 5%-7% through 2027 which we believe augurs well for the potential of future dividend increases and potential share price appreciation. These shares are rated a BUY. Our price target is \$110/share, equating to 1.83x its book value of \$60.14/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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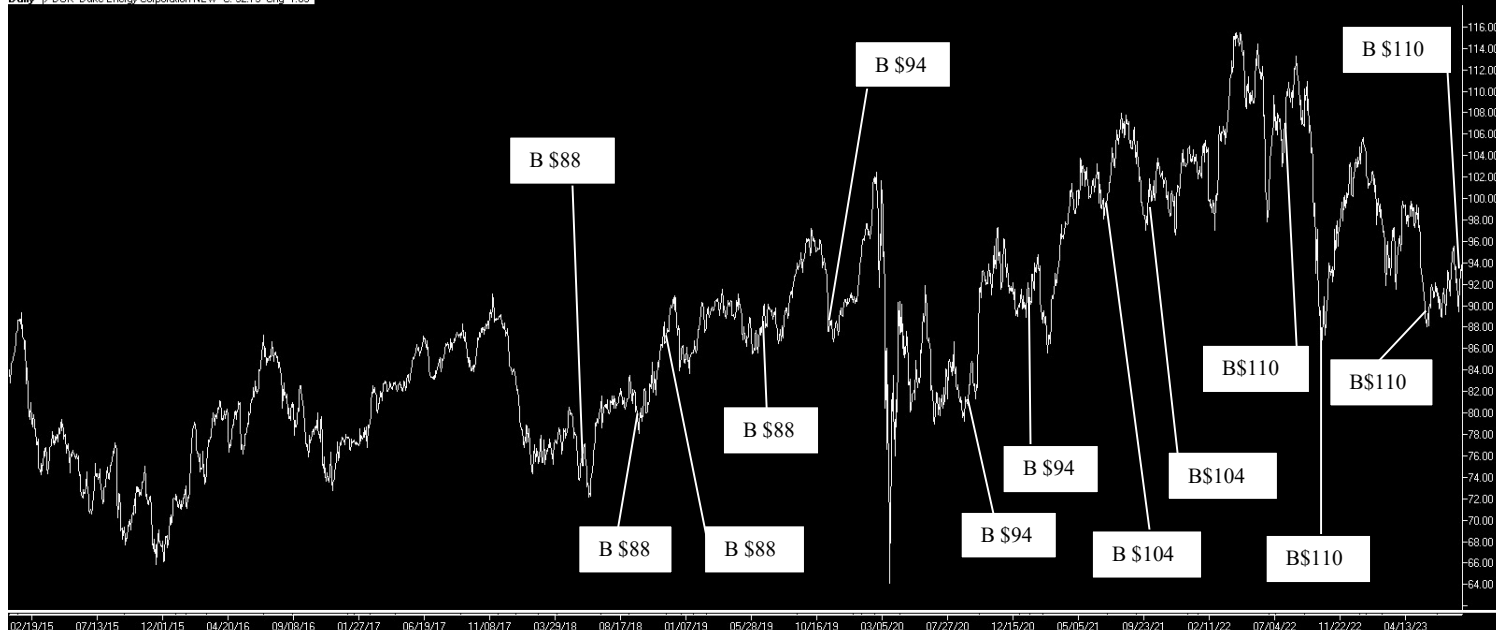
EQUITY RESEARCH

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

	1Q22	2Q22	3Q22	4Q22	FY22	1Q23	2Q23	3Q23e	4Q23e	FY23e
Operating Revenues:										
Regulated electric	\$5,933	\$6,074	\$7,374	\$6,378	\$25,759	\$6,324	\$6,176	\$7,565	\$6,463	\$26,538
Non-regulated electric/natgas/other	1,002	425	397	900	2,724	882	331	425	874	2,669
Regulated natural gas	197	186	197	73	285	70	71	253	152	679
Total Operating revenues	7,132	6,685	7,968	7,351	28,768	7,276	6,578	8,243	7,489	29,886
Operating Expenses:										
Fuel electric gen. & purchased power-reg	1,817	1,972	2,629	2,361	8,782	2,377	2,039	2,537	2,523	9,702
Cost of natural gas & coal sold	481	189	189	417	1,276	298	79	248	486	1,216
Operation, maintenance, & other	1,630	1,447	1,394	1,511	5,734	1,310	1,375	1,462	1,315	5,472
Depreciation & Amortization	1,320	1,302	1,364	1,293	5,086	1,227	1,333	1,387	1,359	5,199
Property & other taxes	392	379	378	348	1,466	389	353	342	363	1,437
Impairment charges	215	9	4	57	259	8		4	8	27
Total Operating expenses	5,855	5,280	5,950	5,987	22,603	5,609	5,179	5,980	6,054	23,053
Gains/losses sale of other assets (net)	2	8	6	5	22	7	31	6	6	21
Operating Income	1,279	1,413	2,024	1,369	6,187	1,674	1,430	2,269	1,441	6,854
Equity in earnings of unconsolidated affiliates	25	36	26	21	113	20	20	26	28	109
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	89	115	89	102	392	151	147	87	88	434
Total other income/expenses	114	151	115	123	505	171	167	113	116	543
Interest expense	587	607	621	679	2,439	720	727	721	728	2,873
Income from Cont Ops before Income Taxes	806	957	1,518	813	4,253	1,125	870	1,656	829	4,510
Income tax expense	14	77	128	45	342	155	119	215	42	333
Income from Cont Operations	820	880	1,390	768	3,911	970	751	1,441	787	4,177
Income (loss) from Discontinued Ops			23		-1,323	-209	-955			-209
Net Income	820	880	1,413	768	2,588	761	-204	1,441	787	3,968
Net Income/loss attributable to non-controlling interest	37	27	9	8	81	43	16	9	36	96
Income from disc. Operations	7				7					
Discontinued Operations				-1,277						
Preferred Dividends	39	14	39	14	106	39	14	14	14	106
Net Income attributable to Duke Energy	818	893	1,383	-531	2,563	765	-234	1,436	809	3,968
Diluted EPS	\$1.08	\$1.14	\$1.81	(\$0.71)	\$3.33	\$1.01	(\$0.32)	\$1.86	\$1.05	\$5.16
Diluted EPS	\$1.08	\$1.14	\$1.81	(\$0.71)	\$3.33	\$1.01	(\$0.32)	\$1.86	\$1.05	\$5.16
Adjustments	\$0.22	\$0.00	\$0.03	\$1.82	\$1.94	\$0.19	\$1.23	\$0.30	\$0.23	\$0.39
Adjusted Diluted EPS	\$1.30	\$1.14	\$1.78	\$1.11	\$5.27	\$1.20	\$0.91	\$2.16	\$1.28	\$5.55

Important Disclosures

Daily | DUK Duke Energy Corporation NEW C: 92.79 Chg: -1.03



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 1.83x book value/share of \$60.14/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

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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