



December 27, 2017

**CURRENT PRICE:** \$83.98  
**RATING:** BUY  
**PRICE TARGET:** \$88  
**CURRENT YIELD:** 4.2%

**EPS Estimates - GAAP**

	DEC 16A	DEC 17E
1Q	\$1.13	\$1.04A
2Q	\$1.07	\$1.01A
3Q	\$1.68	\$1.59A
4Q	\$0.81	\$0.85
	<b>\$4.69</b>	<b>\$4.49</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$91.80 - \$76.14**  
SHARES OUTSTANDING: **700(M)**  
MARKET CAP: **\$58,786(M)**  
AVG. DAILY TRADING VOLUME: **2.5(M)**  
S&P 500: **2,683**

**Valuation Data**

BOOK VALUE: **\$59.49**  
PRICE TO BOOK: **1.41x**  
DIVIDEND: **\$3.56**

**Duke Energy (NYSE: DUK)**

*Heading into 2018 with solid expectations*

**Highlights**

- Adjusted diluted 3Q17 earnings of \$1.59/share vs. \$1.68/share
- Segment Income delined at two of three operating units
- Earnings impacted by unfavorable weather
- Narrows 2017 adjusted eps guidance to \$4.50-\$4.60/share
- Maintain BUY rating

**Investment Thesis**

Wall Street believes the US economy is emerging from its recent economic malaise with GDP estimated to grow about 2%-4% 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 4.2% dividend yield, has both dividend and earnings growth potential going forward. DUK is rated BUY and our price target is \$88/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 58,345 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.*



# EQUITY RESEARCH

## Recent Earnings

DUK reported 3Q17 diluted earnings of \$1.36/share vs. \$1.70/share during 3Q16. The decrease was due to lost revenues caused by Hurricane Irma, unfavorable weather, absence of revenues from the International Energy unit (sold by DUK), and lower results in the Electric Utilities & Infrastructure and Commercial Renewable segments. Total operating revenues decreased to \$6.48 billion from \$6.58 billion and total operating expenses rose to \$4.79 billion from \$4.63 billion. Operating income fell to \$1.70 billion from \$1.95 billion while EBIT declined to \$1.32 billion from \$1.52 billion. Adjusted diluted earnings per share decreased to \$1.59/share from \$1.68/share caused by unfavorable weather and the absence of earnings from the International Energy unit.

## SEGMENT RESULTS

**ELECTRIC UTILITIES/INFRASTRUCTURE:** Segment income declined to \$1.02 billion during 3Q17 from \$1.19 billion during 3Q16. Results were negatively impacted by an \$84 million after tax impairment charge related to the Florida settlement agreement, unfavorable weather (-\$0.14/share), lost revenue from Hurricane Irma and higher depreciation/amortization expense (-\$0.02/share). These negatives were partly offset by an increase in pricing/riders (+\$0.04/share), and lower operating/maintenance expenses (\$0.01/share), which includes Hurricane Irma storm costs (-\$0.03/share). Adjusted earnings per share from this unit decreased to \$1.10 billion from \$1.19 billion.

This unit's operating revenues decreased to \$6.13 billion from \$6.34 billion while operating expenses rose to \$4.35 billion from \$4.32 billion, when comparing the two quarters. Total retail electric sales fell 5.4% to 58,805 GWh from 62.166 GWh. This was due to lower residential (-8.6%), general service (4.8%), Industrial (-1.7%), other energy sales (-2.1%) sales and was partly offset by higher unbilled sales (+24.5%).

**GAS UTILITY/INFRASTRUCTURE:** Segment income rose to \$19 million from \$15 million due to the contribution of DUK's investment in the Atlantic Coast Pipeline, which added \$0.01/share to earnings. Operating revenues rose to \$272 million from \$89 million and total operating expenses increased to \$243 million from \$67 million. Total sales from Piedmont Natural Gas local gas distribution decreased 4.8% and Duke Midwest LDC increased 3.5%.

**COMMERCIAL RENEWABLES:** This unit produced an operating segment loss of \$49 million vs. an operating loss of \$24 million. The decline resulted from lower tax credits in solar investments, higher interest expense, and impairment charges associated with certain renewable investments. Operating revenues decreased to \$95 million from \$139 million and operating expenses rose to \$180 million from \$140 million. Adjusted segment income decreased to \$7 million from \$21 million due to lower solar tax credits (-\$0.01/share) and higher interest expense (-\$0.04/share). Renewable plant energy production decreased 2.3% to 1,760 GWh from 1,801 GWh.

**OTHER:** This unit includes corporate interest expense not allocated to DUK's business units, results from DUK's captive insurance company, and other investments including National Methanol Company (an equity method investment). 3Q17's net expense was \$34 million vs. \$181 million during 3Q16. Results were impacted by merger associated costs, lower income taxes, a favorable litigation settlement, and lower claims against the insurance



company. These were partly offset by higher interest expense, at the holding company from financing the Piedmont Natural Gas acquisition. On an adjusted segment basis, net expense declined to \$20 million from \$117 million.

## RECENT DEVELOPMENTS

The VA State Water Board approved the Atlantic Coast Pipeline (ACP) water permit but delayed the effective date until several environmental impact reports are completed. FERC also gave its approval for this pipeline during the quarter. Moreover, Dominion Energy (D-\$), one of the owners of the ACP, is considering expanding the pipeline into SC.

DUK believes potentially 347,000 of its customers may have been affected by a data breach revealed recently by PayPal-which processes payments for the utility.

DUK is seeking a power rate increase of 9.5% to pass along its coal ash clean-up process and agreed to a partial settlement with a NC utilities regulator for a smaller rate increase on approximately customers where the company will accept a 9.9% return on equity.

The company announced it will invest \$3 billion to strengthen SC's energy grid over the next 10 years. The program is intended to "harden" the system against storms, outages, physical threats, cyber-attacks, and use more renewable power.

The owners of the 125-mile Constitution Pipeline believe it could be completed and enter service by 1H19 assuming it gains the needed regulatory approvals. The owners of this pipeline are DUK, Williams Parters (WMB -\$30.39, WPZ-\$38.73), Cabot Oil & Gas (COG-\$28.13), and WGL Holdings (WGL-\$85.64).



# EQUITY RESEARCH

## Our Thoughts

Not a bad quarter for DUK as the company's service territory was negatively affected by Hurricane Irma. DUK reported 3Q17 diluted earnings of \$1.36/share vs. \$1.70/share during 3Q16. The decrease was due to lost revenues caused by Hurricane Irma, unfavorable weather, absence of revenues from the International Energy unit (sold by DUK), and lower results in the Electric Utilities & Infrastructure and Commercial Renewable segments. Segment incomes decreased at the Electric Utility Infrastructure unit (\$1.02 billion vs. \$1.19 billion) and Commercial Renewables (-\$49 million vs. -\$24 million, but improved at Gas Utility/infrastructure (\$19 million vs. \$15 million). DUK appears poised to enter 2018 with the prospects of growing its annual earnings 4%-6% over 2017 results-the goal set by management earlier this year. Under such a scenario, it is likely the Board of Directors could again increase its annual dividend, based on improved operating results from the electric utility and gas businesses. We continue to rate this stock a BUY, for income/growth investors, with an \$88 price target, equating to 1.48x its current book value of \$59.49/share.

## Risks

There is no guarantee DUK will improve earnings/cash flow. Declining US electric sales volumes may hurt the company's revenues and profits. Rising interest rates, higher fuel prices, negative rate case decisions, tax issues, or rising operating costs could negatively impact DUK's earnings. DUK's stock may be adversely impacted by negative equity/credit markets, terrorist attacks, and failure to comply with Sarbanes Oxley guidelines.

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





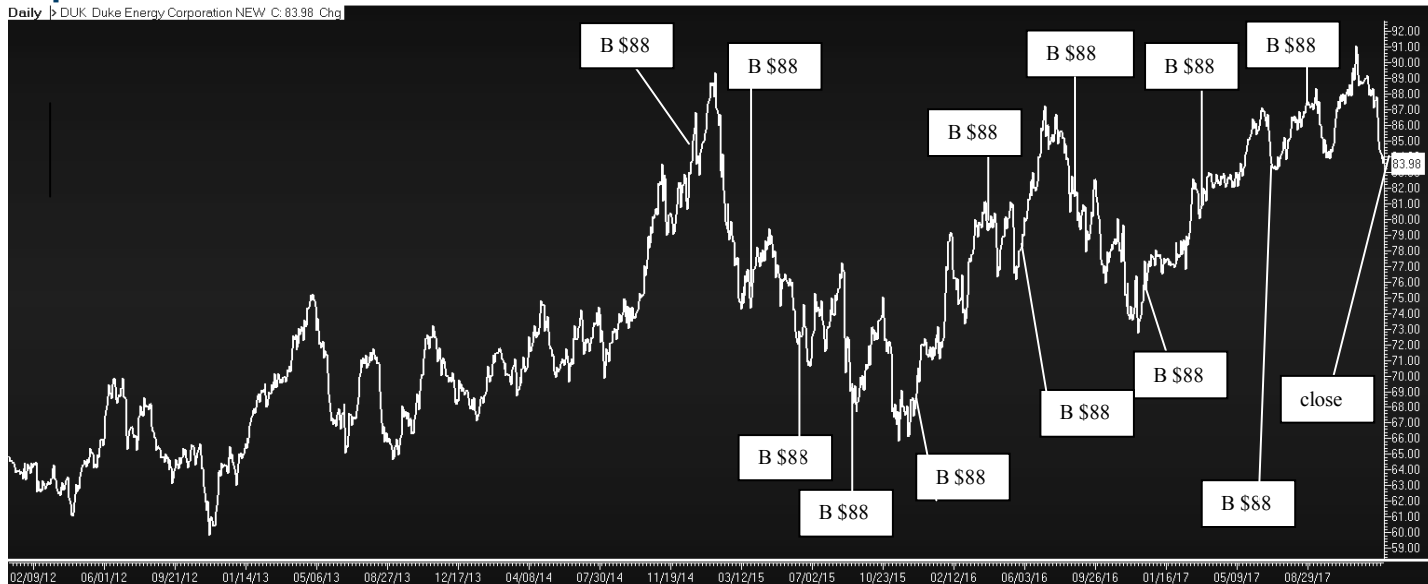
# EQUITY RESEARCH

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

	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17	4Q17e	2017e
<b>Operating Revenues:</b>										
Regulated electric	\$5,503	\$4,965	\$6,303	\$4,450	\$21,221	\$4,913	\$5,118	\$6,091	\$4,532	\$20,654
Non-regulated electric/natgas/other	400	422	429	374	659	646	162	144	366	1,318
Regulated natural gas	169	97	89	508	863	170	275	247	473	1,165
<b>Total Operating revenues</b>	<b>5,622</b>	<b>5,484</b>	<b>6,821</b>	<b>4,816</b>	<b>22,743</b>	<b>5,729</b>	<b>5,555</b>	<b>6,482</b>	<b>5,471</b>	<b>23,237</b>
<b>Operating Expenses:</b>										
Fuel electric gen. & purchased power-reg	1,577	1,509	2,016	1,523	6,625	1,449	1,541	1,863	1,346	6,199
Cost of natural gas & coal sold	60	21	17	157	255	258	76	66	167	567
Operation, maintenance, & other	1,489	1,431	1,547	1,618	6,085	1,433	1,407	1,442	1,628	5,910
Depreciation & Amortization	814	813	837	830	3,294	859	835	900	852	3,446
Property & other taxes	297	293	303	339	1,142	304	307	313	355	1,279
Impairment charges	3	195	10		18		9	207		216
<b>Total Operating expenses</b>	<b>4,298</b>	<b>4,344</b>	<b>4,805</b>	<b>3,982</b>	<b>17,429</b>	<b>4,303</b>	<b>4,175</b>	<b>4,793</b>	<b>4,343</b>	<b>17,614</b>
Gains/losses sale of other assets (net)	9	5	6	7	27	11	7	6		24
<b>Operating Income</b>	<b>1,333</b>	<b>1,145</b>	<b>2,022</b>	<b>841</b>	<b>5,341</b>	<b>1,437</b>	<b>1,387</b>	<b>1,695</b>	<b>1,123</b>	<b>5,642</b>
<b>Other Income/Expenses</b>										
Equity in earnings of unconsolidated affiliates	8	15	60	98	15	29	36	36	11	112
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	79	92	99	3454	324	86	81	88	24	279
<b>Total other income/expenses</b>	<b>87</b>	<b>107</b>	<b>39</b>	<b>76</b>	<b>309</b>	<b>118</b>	<b>117</b>	<b>124</b>	<b>35</b>	<b>394</b>
Interest expense	511	500	482	423	1,916	491	486	498	428	1,903
Income from Cont Ops before Income Taxes	909	752	1,579	494	3,734	1,081	1,018	1,321	730	4,150
Income tax expense	213	239	520	184	1,156	344	327	364	256	1,291
Income from Cont Operations	696	513	1,059	310	2,579	717	691	957	474	2,839
Income (loss) from Discontinued Ops	3	-1	122	124	408		-2	-2	3	-7
<b>Net Income</b>	<b>699</b>	<b>512</b>	<b>1,181</b>	<b>-98</b>	<b>2,170</b>	<b>717</b>	<b>689</b>	<b>955</b>	<b>477</b>	<b>2,838</b>
Net Income/loss attributable to non-controlling interest	-5	-3	-5	-5	-18	-1	-3	-1	-5	-10
<b>Net Income attributable to Duke Energy Corp</b>	<b>\$694</b>	<b>\$509</b>	<b>\$1,176</b>	<b>(\$227)</b>	<b>\$2,152</b>	<b>\$716</b>	<b>\$686</b>	<b>\$954</b>	<b>\$472</b>	<b>2,828</b>
<b>Diluted EPS</b>	<b>\$1.01</b>	<b>\$0.74</b>	<b>\$1.52</b>	<b>(\$0.33)</b>	<b>\$3.11</b>	<b>\$1.02</b>	<b>\$0.98</b>	<b>\$1.36</b>	<b>\$0.68</b>	<b>\$4.04</b>
Net Income from discon ops attributable shareholders										
<b>Diluted EPS</b>	<b>\$1.01</b>	<b>\$0.74</b>	<b>\$1.52</b>	<b>(\$0.33)</b>	<b>\$3.11</b>	<b>\$1.02</b>	<b>\$0.98</b>	<b>\$1.36</b>	<b>\$0.68</b>	<b>\$4.04</b>
Adjustments	\$0.12	\$0.33	\$0.16	\$1.14	\$1.58	\$0.02	\$0.03	\$0.23	\$0.18	\$0.46
<b>Adjusted Diluted EPS</b>	<b>\$1.13</b>	<b>\$1.07</b>	<b>\$1.68</b>	<b>\$0.81</b>	<b>\$4.69</b>	<b>\$1.04</b>	<b>\$1.01</b>	<b>\$1.59</b>	<b>\$0.86</b>	<b>\$4.50</b>

## Important Disclosures

Daily | DUK Duke Energy Corporation NEW C: 83.98 Chg



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

\$88 price target equates to 1.48x book value/share

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) 37.5%, (2) 62.5%, (3) 0%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1) 100%, (2) 0%, (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**