



January 14, 2021

CURRENT PRICE: \$91.66
RATING: BUY
PRICE TARGET: \$94
CURRENT YIELD: 4.2%

EPS Estimates

	DEC 19A	DEC 20E
1Q	\$1.24	\$1.14A
2Q	\$1.12	\$1.08A
3Q	\$1.79	\$1.87A
4Q	\$0.91	\$0.98
	\$5.06	\$5.07

Trading Data

52-WEEK PRICE RANGE: **\$103.79-\$62.13**
 SHARES OUTSTANDING: **735(M)**
 MARKET CAP: **\$67,370(M)**
 AVG. DAILY TRADING VOLUME: **3.0(M)**
 S&P 500: **3,796**

Valuation Data

BOOK VALUE: **\$64.26**
 PRICE TO BOOK: **1.31x**
 DIVIDEND: **\$3.86**

Duke Energy (NYSE: DUK)

Moving towards "Renewable Energy" projects

Highlights

- Adjusted diluted 3Q20 earnings of \$1.87/share vs. \$1.79/share
- Revenues decline due to Covid-19 recession
- Renewable energy becomes large part of business strategy
- Affirmed 2020 earnings guidance
- 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 4.2% 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 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.

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EQUITY RESEARCH

Recent Earnings

DUK reported 3Q20 operating earnings of \$1.74/share vs. \$1.82/share during 3Q19. When comparing the two quarters, operating revenues declined to \$6.72 billion from \$6.94 billion due to the covid-19 slowdown and unfavorable weather. Operating expenses fell to \$4.91 billion from \$5.01 billion primarily because of lower fuel costs used in electric generation/purchased power (-\$129 million) and decreased O&M expense (-\$34 million). As a result operating income decreased to \$1.81 billion from \$1.93 billion. 3Q20's adjusted earnings rose to \$1.87/share from \$1.79/share during 3Q19. The higher results came from improved segment income in the Electric Utilities & Infrastructure and Commercial Renewable units.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: When comparing 3Q20 to 3Q19, reported segment income was flat at \$1.38 billion, and 3Q20 results reflected partial settlements from Duke Energy Carolinas and Duke Energy Progress North Carolina rate cases. On an adjusted basis, 3Q20 segment income rose to \$1.41 billion from \$1.37 billion. The improved results came from decreases in O&M expense, tax expense, rate case contributions, wholesale formula rate adjustments, and higher energy efficiency/grid modernization rider programs. These positives were partly offset by share dilution, mild weather, higher depreciation/amortization from a larger rate base, and lower retail margins caused by the economic slowdown. Total electric sales declined 4.1% to 70,785 GWh from 73,931 GWh.

GAS UTILITIES & INFRASTRUCTURE: Reported segment income produced a loss of \$73 million during 3Q20 vs \$26 million during 3Q19. 3Q20's lower result came from charges related to exiting gas pipeline investments (Atlantic Coast Pipeline). Adjusted segment income for 3Q20 was a loss of \$8 million vs. \$26 million during 3Q19. The decrease was due to loss of the Atlantic Coast Pipeline (ACP) earnings and higher income taxes which were partly offset by contributions from the Piedmont North Carolina rate case. Total gas sales from Piedmont Natural Gas LDC and Duke Energy Midwest LDC throughputs fell 4.8% and 3.2%, respectively.

COMMERCIAL RENEWABLES: Both reported and adjusted segment income grew to \$60 million from \$40 million when comparing 3Q20 to 3Q19. The improvement came from growth in DUK's renewable energy projects. Renewable plant production increased 19.4% to 2,563 GWh.

OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from DUK's captive insurance company. When comparing the two quarters, both reported and adjusted segment income generated a loss of \$103 million vs. a loss of \$124 million. The improvement came from lower tax expense/financing costs, and unrealized investment gains on non-pension executive benefit trusts.



EARNINGS CONFERENCE CALL

Following the 3Q20 earnings release the company held a conference call to discuss earnings, controlling costs, and moving towards environmentally friendly generation through renewable energy projects. Regarding expected 2020 earnings, management said it expects to produce adjusted earnings of \$5.05-\$5.20/share. Additionally, DUK believes 2021 earnings could come in around \$5.15/share, and afterwards grow approximately 4%-6% per year based on moving towards “greener generation”. Management’s goal is to have 95% of earnings come from lower-risk regulated gas and electric utilities.

Because of lower electrical demand caused by the recent recession, DUK initiated a cost reduction plan of \$400 million-\$450 million from operations, corporate center costs, employee expenses, overtime variable compensation, contraction of contingent workers, and instituting a hiring freeze. During the conference call management stated they have realized approximately \$350 million in savings through 9/30/20.

The approach to being “greener” pivots around the company’s move towards cleaner generation, modernizing /strengthening its energy grid, and expanding its natural gas infrastructure. The overall goal is to reduce the company’s carbon foot-print 50% by 2030 and towards 0% by 2050. Towards this end, DUK plans to spend \$58 billion during the next five years and outlined a \$65 billion - \$75 billion capital spending plan from 2025-2029. Based on this planned spending, management expects annual rate base growth of 6.5% through 2024 and rising to 7% by 2030.

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.



OUR THOUGHTS

We continue to rate DUK a BUY for income growth investors based on its current dividend yield of 4.2% and evolving business plan to transition its power plants from carbon generation towards a “greener” foot-print. While management confirmed its 2020 adjusted earnings guidance of \$5.05-\$5.20/share, it also believes 2021 earnings could come in around \$5.15/share and then grow 4%-6% annually after 2021. If this earnings scenario comes to fruition, the annual dividend may be increased in 2021, marking the 15th consecutive year of consecutive increases.

There are near-term challenges facing DUK, such as replacing revenues expected from the ACP, growing its renewable energy generation, and finalizing a coal ash settlement-without causing a debt downgrade by the ratings agencies. However, if DUK overcomes these challenges, then investor demand for this stock may increase and cause these shares to rise during the next 12-18 months. Our price target is \$94/share, equating to DUK trading at 1.46x its current book value of \$64.26/share.

Risks

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. 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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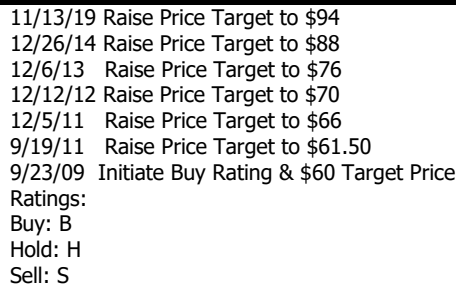
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MANAGEMENT, INC.

EQUITY RESEARCH

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

	1Q19	2Q19	3Q19	4Q19	FY19	1Q20	2Q20	3Q20	4Q20e	FY20e
Operating Revenues:										
Regulated electric	\$5,285	\$5,423	\$6,515	\$5,392	\$22,615	\$5,124	\$4,963	\$6,315	\$5,283	\$21,685
Non-regulated electric/natgas/other	728	280	223	183	705	187	195	214	181	777
Regulated natural gas	150	170	202	528	1,759	638	263	192	517	1,610
Total Operating revenues	6,163	5,873	6,940	6,103	25,079	5,949	5,421	6,721	5,981	24,072
Operating Expenses:										
Fuel electric gen. & purchased power-reg	1,609	1,641	1,978	1,598	6,826	1,447	1,349	1,849	1,657	6,302
Cost of natural gas & coal sold	327	76	48	176	627	199	59	41	168	467
Operation, maintenance, & other	1,419	1,434	1,484	1,729	6,066	1,339	1,353	1,450	1,386	5,528
Depreciation & Amortization	1,089	1,089	1,186	1,184	4,548	1,130	1,150	1,217	1,185	4,682
Property & other taxes	343	334	335	295	1,307	345	334	324	284	1,287
Impairment charges		4	20	8	8	2	6	28		36
Total Operating expenses	4,787	4,578	5,011	4,990	19,366	4,462	4,251	4,909	4,680	18,302
Gains/losses sale of other assets (net)	3	3		-4	-4	1	7	2		10
Operating Income	1,373	1,298	1,929	1,109	5,709	1,488	1,177	1,814	1,301	5,780
Equity in earnings of unconsolidated affiliates	43	44	50	25	162	44	-1,968	-80	39	-1,965
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	115	89	104	122	430	46	137	127	132	442
Total other income/expenses	158	133	154	147	592	90	-1,831	47	171	1,523
Interest expense	543	542	572	547	2,204	551	554	522	553	2,180
Income from Cont Ops before Income Taxes	988	889	1,511	709	4,097	1,027	-1,208	1,339	919	2,077
Income tax expense	95	141	188	95	519	137	316	105	138	696
Income from Cont Operations	893	748	1,323	614	3,578	890	-892	1,234	781	2,013
Income (loss) from Discontinued Ops				-7	-7					
Net Income	907	748	1,323	607	3,571	890	-892	1,234	781	2,013
Net Income/loss attributable to non-controlling interest	7	84	19	67	177	48	90	70	63	271
Net Income attributable to Duke Energy	900	820	1,327	660	3,707	899	-802	1,304	679	2,080
Diluted EPS	\$1.24	\$1.12	\$1.82	\$0.88	\$5.07	\$1.24	(\$1.13)	\$1.74	\$0.92	\$2.77
Net Income from discon ops attributable shareholders										
Diluted EPS	\$1.24	\$1.12	\$1.82	\$0.88	\$5.07	\$1.24	(\$1.13)	\$1.74	\$0.92	\$2.77
Adjustments			(\$0.03)	\$0.03	(\$0.01)	(\$0.10)	\$2.21	\$0.13	\$0.06	\$2.30
Adjusted Diluted EPS	\$1.24	\$1.12	\$1.79	\$0.91	\$5.06	\$1.14	\$1.08	\$1.87	\$0.98	\$5.07

Daily ▸ DUK Duke Energy Corporation NEW C: 91.66 Chg 0.10



The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 50%, (2) 50, (3) 0%



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