

January 17, 2024

CURRENT PRICE: \$96.83
RATING: BUY
PRICE TARGET: \$110
CURRENT YIELD: 4.2%

EPS Estimates

	DEC 22A	DEC 23E
1Q	\$1.29	\$1.20A
2Q	\$1.14	\$0.91A
3Q	\$1.78	\$1.94A
4Q	\$1.11	\$1.50
	\$5.27	\$5.55

Trading Data

52-WEEK PRICE RANGE: **\$105.42-\$83.06**
 SHARES OUTSTANDING: **771(M)**
 MARKET CAP: **\$74,656(M)**
 AVG. DAILY TRADING VOLUME: **3.3(M)**
 S&P 500: **4,739**

Valuation Data

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

Duke Energy (NYSE: DUK)

3Q23 Earnings Results-Maintain Buy rating

Highlights

- Adjusted diluted 3Q23 earnings of \$1.94/share vs. \$1.78/share
- Impacted by lower sales & higher interest expense
- Commercial Renewables sale helps reduce debt
- DUK narrows 2023 earnings guidance
- 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 4.2% 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 3Q23 operating earnings of \$1.59/share vs. \$1.81/share during 3Q22. Results were impacted by lower electric sales and higher interest expense. When comparing the two quarters, operating revenues rose to \$7.64 billion from \$7.37 billion, operating expenses increased to \$5.89 billion from \$5.79 billion, and operating income improved to \$2.11 billion from \$2.06 billion. Operating results improved in the Gas Utilities & Infrastructure unit as well as the Other unit, while results declined in Electric Utilities and Infrastructure unit. Adjusted operating earnings improved to \$1.94/share from \$1.78/share. The improvement came from a lower tax rate during 3Q23, revenue growth from riders/other retail margin, and favorable impacts from recent rate cases. These were partly offset by lower sales volumes and higher interest expense. DUK recorded a \$152 million charge from Discontinued Operations due to the sale of its Commercial Renewables business which closed this past October.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: Operating segment income decreased to \$1.45 billion from \$1.54 billion. Results were impacted by higher interest expense/storm costs, and lower electric sales. These were partially offset by revenue growth from riders/other retail margin, favorable weather, and positive rate case impacts. Adjusted segment income fell to \$1.53 billion from \$1.54 billion, also because of factors mentioned above. On an adjusted basis, DUK estimates these factors penalized earnings by \$0.01/share when compared to last year's quarter.

When comparing 3Q23 to 3Q22, total electric sales decreased 0.9% to 73,061 GWh due to declines in industrial (-6.3%), other energy sales (-4.7%), wholesale/other (-2.3%), and residential (-0.8%). These were partly offset by higher unbilled sales (+31.7%) and general services (+0.3%).

GAS UTILITIES & INFRASTRUCTURE: Both reported and adjusted segment income rose to \$15 million from \$4 million. The improvement was due to revenue growth from riders/other retail margin, and lower O&M expenses. These were partly offset by higher interest and depreciation expenses. On an adjusted basis, DUK estimates these factors improved earnings by \$0.01/share when compared to last year's comparable quarter.

Gas sales were mixed at DUK's local distribution companies (LDC) when comparing the two quarters. Duke Energy Midwest LDC's sales increased 3.6% to 9.9 million dekatherms while Piedmont Natural Gas LDC's decreased 8.9% to 142.2 million dekatherms.

OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from DUK's captive insurance company. Reported and adjusted segment results improved to -\$59 million from -\$183 million. The improvement represented an increase of \$0.16/share, when compared to 3Q22's results, came primarily from a lower effective tax rate.



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RECENT DEVELOPMENTS:

During the 3Q23 earnings call, management reaffirmed annual EPS growth of 5%-7% per year through 2027 and lowered 2023 earnings guidance from \$5.55-\$5.75/share to \$5.55-\$5.65/share. 2024 earnings guidance will be provided during the 4Q23 earnings call and the company does not expect to issue additional equity through 2027.

The sale of the Commercial Renewable unit, to Brookfield Partners, was completed this past October and management said proceeds are being used to remove \$1.5 billion of debt from DUK's balance sheet.

Duke Energy Carolinas requested South Carolina regulators review current rates, not done since 2018, to improve its system reliability & diversity, by seeking a rate increase. The requested rate increase (+15.5%) asks to accelerate the return of excess deferred income tax benefits created by the Federal Tax Cuts & Jobs Act of 2017.

Cameron McDonald was named senior vice president and chief human resources officer beginning 1/1/24. She succeeds Ron Reising who will retire 3/31/24.

DUK plans to build the first US power system capable of producing, storing, & combusting 100% green hydrogen in a combustion turbine in FL. This will be done in collaboration with Sargent & Lundy, GE Verona, and located in Volusia County, FL at DUK's DeBary Plant.

The sale of DUK's commercial distribution generation portfolio to Arclight Capital Partners LLC, for \$364 million, was completed this past October. It includes REC Solar's operating assets, development pipeline, O&M portfolio, and distributed fuel cell projects managed by Bloom Energy.

DUK, Ford (F-\$11.27), General Motors (GM-\$35.01), and BMW North America will launch a new electric vehicle pilot program in NC to provide an EV charging subscription service.



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OUR THOUGHTS

In our opinion DUK reported 3Q23 earnings with no surprises while narrowing its 2023 earnings guidance to \$5.55-\$5.65/share from \$5.55-\$5.75/share. Moreover, it maintained annual earnings growth guidance of 5%-7% through 2027 and plans to provide 2024 earnings guidance during its 4Q23 earnings release in early February. Potentially, continued earnings growth could lead to further annual dividend increases going into 2024. DUK shares rallied from \$92.79/share, since our last report, to a recent high on 1/8/24 of \$99.39/share, in conjunction with other utility stocks, on Wall Street's belief the Federal Reserve will lower interest rates during 2024. Should this lower interest rate scenario materialize, then DUK's shares could approach our price target of \$110, equating to 1.82x its book value of \$60.14/share. These shares are rated a BUY.

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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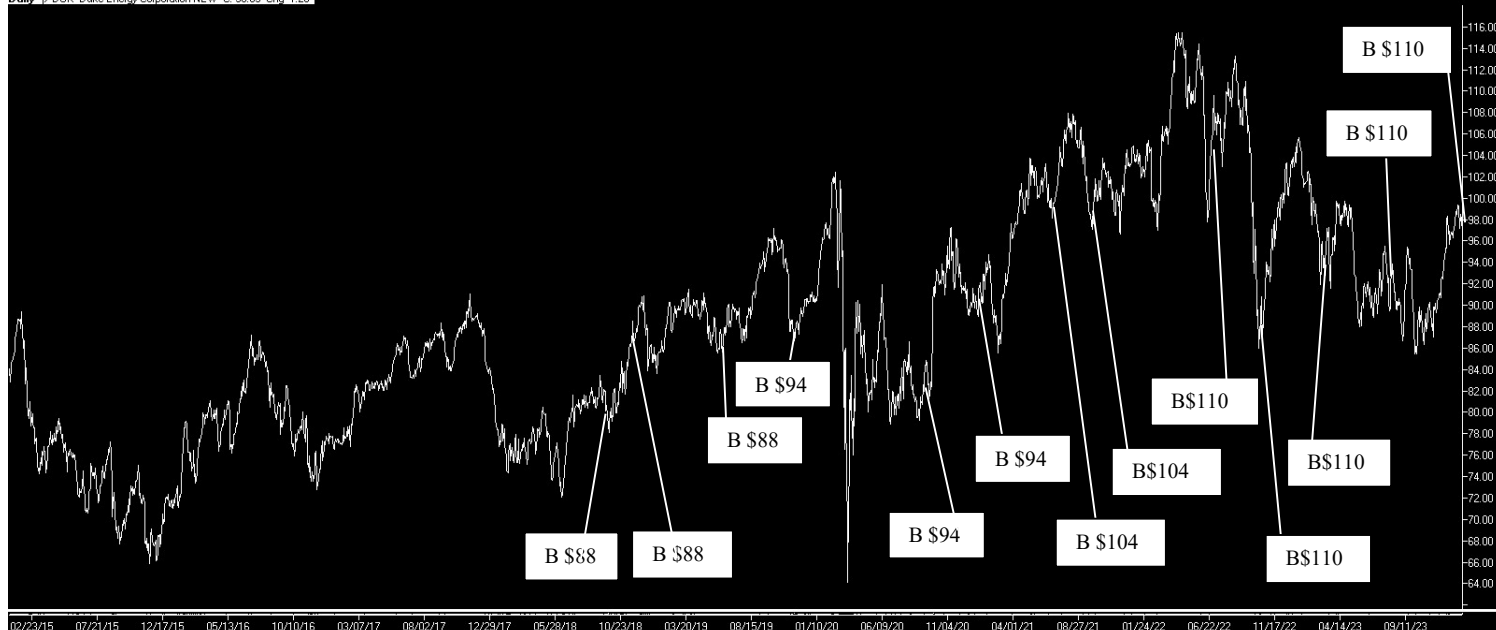
EQUITY RESEARCH

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

	1Q22	2Q22	3Q22	4Q22	FY22	1Q23	2Q23	3Q23	4Q23e	FY23e
Operating Revenues:										
Regulated electric	\$5,933	\$6,074	\$7,374	\$6,378	\$25,759	\$6,324	\$6,176	\$7,640	\$6,463	\$26,603
Non-regulated electric/natgas/other	1,002	425	397	900	2,724	882	331	284	874	2,371
Regulated natural gas	197	186	197	73	285	70	71	70	152	363
Total Operating revenues	7,132	6,685	7,968	7,351	28,768	7,276	6,578	7,994	7,489	29,337
Operating Expenses:										
Fuel electric gen. & purchased power-reg	1,817	1,972	2,629	2,361	8,782	2,377	2,039	2,571	2,523	9,510
Cost of natural gas & coal sold	481	189	189	417	1,276	298	79	57	486	920
Operation, maintenance, & other	1,630	1,447	1,394	1,511	5,734	1,310	1,375	1,428	1,315	5,428
Depreciation & Amortization	1,320	1,302	1,364	1,293	5,086	1,227	1,333	1,353	1,359	5,272
Property & other taxes	392	379	378	348	1,466	389	353	394	363	1,499
Impairment charges	215	9	4	57	259	8		88	8	104
Total Operating expenses	5,855	5,280	5,950	5,987	22,603	5,609	5,179	5,891	6,054	22,733
Gains/losses sale of other assets (net)	2	8	6	5	22	7	31	8	6	52
Operating Income	1,279	1,413	2,024	1,369	6,187	1,674	1,430	2,111	1,441	6,656
Equity in earnings of unconsolidated affiliates										
Equity in earnings of unconsolidated affiliates	25	36	26	21	113	20	20	45	28	113
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	89	115	89	102	392	151	147	133	88	519
Total other income/expenses	114	151	115	123	505	171	167	178	116	632
Interest expense										
Interest expense	587	607	621	679	2,439	720	727	774	728	1,502
Income from Cont Ops before Income Taxes										
Income from Cont Ops before Income Taxes	806	957	1,518	813	4,253	1,125	870	1,515	829	4,339
Income tax expense										
Income tax expense	14	77	128	45	342	155	119	42	42	358
Income from Cont Operations										
Income from Cont Operations	820	880	1,390	768	3,911	970	751	1,473	787	3,981
Income (loss) from Discontinued Ops										
Income (loss) from Discontinued Ops			23		-1,323	-209	-955	-152		-1,316
Net Income										
Net Income	820	880	1,413	768	2,588	761	-204	1,321	787	2,665
Net Income/loss attributable to non-controlling interest										
Net Income/loss attributable to non-controlling interest	37	27	9	8	81	43	16	69	36	164
Income from disc. Operations										
Income from disc. Operations	7				7					
Discontinued Operations										
Discontinued Operations				-1,277						
Preferred Dividends										
Preferred Dividends	39	14	39	14	106	39	14	39	14	106
Net Income attributable to Duke Energy										
Net Income attributable to Duke Energy	818	893	1,383	-531	2,563	765	-234	1,213	809	2,553
Diluted EPS										
Diluted EPS	\$1.08	\$1.14	\$1.81	(\$0.71)	\$3.33	\$1.01	(\$0.32)	\$1.59	\$1.05	\$3.33
Diluted EPS Adjustments										
Diluted EPS Adjustments	\$0.22	\$0.00	\$0.03	\$1.82	\$1.94	\$0.19	\$1.23	\$0.35	\$0.45	\$2.22
Adjusted Diluted EPS										
Adjusted Diluted EPS	\$1.30	\$1.14	\$1.78	\$1.11	\$5.27	\$1.20	\$0.91	\$1.94	\$1.50	\$5.55

Important Disclosures

Daily | DUK Duke Energy Corporation NEW C: \$6.83 Chg: -1.20



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 1.82x 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.

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) 33.3%, (2) 66.7%, (3) 0%

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Other Disclosures

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