

March 22, 2023

CURRENT PRICE: \$92.95
RATING: BUY
PRICE TARGET: \$110
CURRENT YIELD: 4.3%

EPS Estimates

| | DEC 22A | DEC 23E |
|----|---------|---------|
| 1Q | \$1.30 | \$1.32 |
| 2Q | \$1.14 | \$1.35 |
| 3Q | \$1.78 | \$1.83 |
| 4Q | \$1.11 | \$1.07 |
| | \$5.27 | \$5.57 |

Trading Data

52-WEEK PRICE RANGE: \$116.33-\$83.76
 SHARES OUTSTANDING: 770(M)
 MARKET CAP: \$71,572(M)
 AVG. DAILY TRADING VOLUME: 2.9(M)
 S&P 500: 3,937

Valuation Data

BOOK VALUE: \$61.51
 PRICE TO BOOK: 1.51x
 DIVIDEND: \$4.02

Duke Energy (NYSE: DUK)

4Q22 Earnings Results-Maintain Buy rating

Highlights

- Adjusted diluted 4Q22 earnings of \$1.11/share vs. \$0.88/share
- Improved results at Electric & Gas operating units
- Selling Commercial Renewables unit
- Management maintains 5%-7% annual earnings growth guidance
- Maintain BUY rating & \$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.



EQUITY RESEARCH

Recent Earnings

DUK reported 4Q22 operating earnings of (\$0.71)/share vs. \$0.93/share during 4Q21. The lower results were produced by a \$1.3 billion impairment charge on the planned sale of the Commercial Renewables business unit. On a quarter-to-quarter basis, operating revenues rose to \$7.4 billion from \$6.2 billion and operating expenses increased to \$1.4 billion from \$1.1 billion. Operating segment income increased in the Electric Utilities & Infrastructure and Gas Utilities & Infrastructure units. 4Q22's adjusted operating earnings improved to \$1.11/share from \$0.88/share driven by higher volumes, lower O&M expense, favorable weather in DUK's service territory, favorable riders, and increased retail margins. These positives were partly offset by higher interest expense. When comparing FY22 to FY21, operating earnings declined to \$3.33/share vs. \$4.94/share and adjusted operating earnings rose to \$5.27/share vs. \$4.99/share.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: 4Q22's operating segment income rose to \$811 million vs. \$675 million during 4Q21 and adjusted operating segment income improved to \$811 million vs. \$675 million. On an adjusted basis, earnings per share increased \$0.17/share from this operating unit. The higher quarterly results were due to higher kilowatt sales, favorable service territory weather, and lower O&M expense. These were partly offset by higher financing costs, D&A, and property taxes.

When comparing 4Q22 to 4Q21, operating revenues rose to \$6.5 billion from \$5.4 billion while operating expenses increased to \$5.2 billion from \$4.4 billion. Operating income improved to \$1.3 billion from \$1.0 billion.

On a quarter-to-quarter comparison, total consolidated electric sales grew 4.8% to 61,235 GWh from 58,423 GWh. The improvement came from higher wholesale/other (+5.2%) and total retail sales (+4.7%) due to continued growth in DUK's service territory and favorable weather.

GAS UTILITIES & INFRASTRUCTURE: Both operating segment income and adjusted operating segment income rose to \$191 million during 4Q22 from \$137 million during 4Q21. The improved results came from higher gas sales and higher rate case contributions. On an adjusted basis, earnings per share increased \$0.07/share from this operating unit.

When comparing the two quarters, operating revenues increased to \$928 million from \$721 million while operating expenses rose to \$660 million from \$549 million. Operating income rose to \$265 million from \$172 million.

Total gas sales increased at DUK's two LDCs, Piedmont Natural Gas LDC and Duke Energy Midwest LDC. Piedmont Natural Gas LDC sales rose 7.6% to 164.2 million dekatherms and Duke Energy Midwest LDC's improved 13.1% to 26.7 million dekatherms.



EQUITY RESEARCH

OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from DUK's captive insurance company. Operating segment income was -\$257 million vs. -\$128 million as results were affected by litigation charges, workplace/workforce realignment costs, and higher financing costs. Adjusted operating segment income was -\$135 million vs. -\$121 million due to higher financing costs and was partly offset by lower contributions from the Duke Energy Foundation. These factors caused earnings to be negatively impacted by \$0.01/share.

DISCONTINUED OPERATIONS: DUK announced it was in the process of selling its Commercial Renewables unit which management believes may be sold by YE23. As a result, DUK incurred a 4Q22 estimated impairment charge of approximately \$1.3 billion related to the sale. Management plans to use the sale's proceeds to reduce corporate debt.

RECENT DEVELOPMENTS:

During the 4Q22 earnings call, management reaffirmed annual EPS growth guidance of 5%-7% per year through 2027 and 2023 earnings guidance of \$5.55-\$5.75/share. Additionally, DUK anticipates higher revenues in 2023, from recent rate increases, and identified \$300 million of cost savings related to business/corporate support cost structures. Management stated the costs will be realized ratably in 2023 with 75% of these being sustainable in forward years. To this end, DUK is targeting flat O&M expense levels for FYs 2024-2027.

DUK began operations of its largest solar power plant, Pisgah Ridge Solar project in Navarro County, TX. This plant, operated by DUK's non-regulated business, called Energy Sustainable Solutions, has production capacity of 250 MWs.

The Florida Public Service Commission gave approval for DUK's updated fuel/capacity rate request and storm cost recovery/restoration for the FL service territory. The new rates will take effect in April 2023.

DUK began construction on two new solar plants in Bay and Madison counties in FL and these may be completed in nine-to-twelve months. One is the Mule Creek Renewable Energy Center and will generate 74.9 MWs of electricity with approximately 175,000 solar panels. The second is the Winquepin Renewable Energy center with production capacity of 74.9 MWs with approximately 200,000 solar panels.

Management plans to build a site at the Mount Holly Technology & Information Center which will develop, test, and deploy zero-emissions light, medium, and heavy-duty commercial electric vehicle fleets. The goal of this project, per DUK, is to speed-up "commercial fleet electrification" across the company's service territory.



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The Public Service Commission of SC approved a rate settlement agreement between DUK and its SC customers. The new rates will take effect 4/1/23 with expectations of raising monthly residential customer bills by 8.2%, and commercial and industrial customers increased by 3.7% and 2.2%, respectively.

Dhia Jamil, DUK's executive VP & chief operating officer of DUK, announced he will retire mid-year 2023.

OUR THOUGHTS

In our opinion, a decent 4Q22 earnings report as DUK reported operating earnings of (\$0.71)/share vs. \$0.93/share during 4Q21. The lower results were produced by a \$1.3 billion impairment charge on the Commercial Renewables business unit which DUK intends to sell. Operating segment income increased in the Electric Utilities & Infrastructure and Gas Utilities & infrastructure units. 4Q22's adjusted operating earnings improved to \$1.11/share from \$0.88/share driven by higher electric sales, lower O&M expense, favorable weather in DUK's service territory, positive contributions from riders, and increased retail margins. These positives were partly offset by higher interest expense. When comparing FY22 to FY21, operating earnings declined to \$3.33/share vs. \$4.94/share and adjusted operating earnings rose to \$5.27/share vs. \$4.99/share.

We continue to recommend DUK shares for income/growth investors given its attractive dividend yield of 4.1%, in addition to the possibility of future dividend increases, based upon management's earnings growth guidance of 5%-7% per year going forward and a 65%-75% dividend payout ratio. Moreover, the recent increase in US interest rates, and subsequent decline in DUK's share price, may offer a good entry point for new investors. If the Federal Reserve is successful in lowering inflation, by raising interest rates, then eventually interest rates may begin to fall which could attract investors to utilities, like DUK, and potentially generate share price appreciation during the next 12-24 months. These shares are rated a BUY with a target price of \$110. Our target price of \$110/share equates to trading at 1.79x its book value of \$61.51/share.



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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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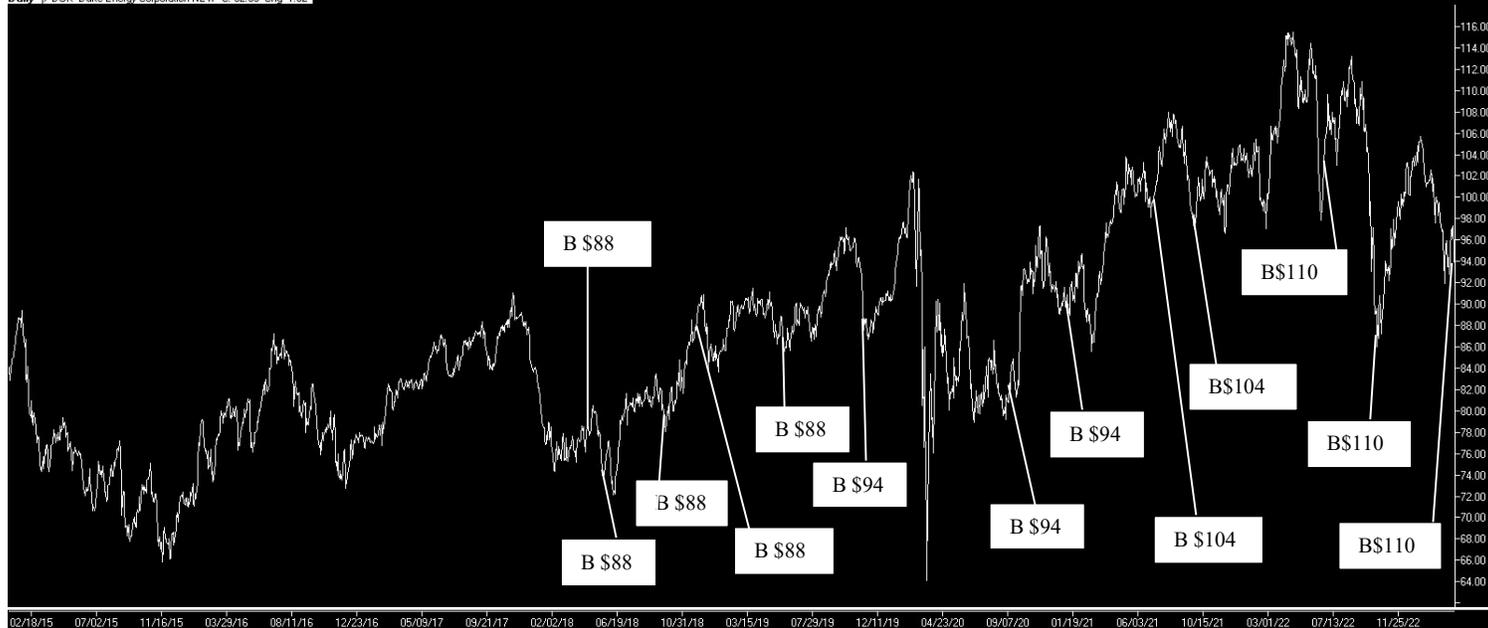
EQUITY RESEARCH

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

| | 1Q22 | 2Q22 | 3Q22 | 4Q22 | FY22 | 1Q23e | 2Q23e | 3Q23e | 4Q23e | FY23e |
|---|---------|---------|---------|----------|----------|---------|---------|---------|---------|----------|
| Operating Revenues: | | | | | | | | | | |
| Regulated electric | \$5,933 | \$6,074 | \$7,374 | \$6,378 | \$25,759 | \$6,165 | \$6,286 | \$7,465 | \$6,463 | \$26,379 |
| Non-regulated electric/natgas/other | 1,002 | 425 | 397 | 900 | 2,724 | 844 | 488 | 425 | 874 | 2,631 |
| Regulated natural gas | 197 | 186 | 197 | 73 | 285 | 163 | 204 | 253 | 152 | 772 |
| Total Operating revenues | 7,132 | 6,685 | 7,968 | 7,351 | 28,768 | 7,172 | 6,978 | 8,143 | 7,489 | 29,782 |
| Operating Expenses: | | | | | | | | | | |
| Fuel electric gen. & purchased power-reg | 1,817 | 1,972 | 2,629 | 2,361 | 8,782 | 1,986 | 2,265 | 2,537 | 2,523 | 9,311 |
| Cost of natural gas & coal sold | 481 | 189 | 189 | 417 | 1,276 | 454 | 184 | 248 | 486 | 1,402 |
| Operation, maintenance, & other | 1,630 | 1,447 | 1,394 | 1,511 | 5,734 | 1,489 | 1,385 | 1,462 | 1,315 | 5,651 |
| Depreciation & Amortization | 1,320 | 1,302 | 1,364 | 1,293 | 5,086 | 1,350 | 1,226 | 1,387 | 1,359 | 5,322 |
| Property & other taxes | 392 | 379 | 378 | 348 | 1,466 | 386 | 343 | 342 | 363 | 1,434 |
| Impairment charges | 215 | 9 | 4 | 57 | 259 | 32 | 7 | 4 | 8 | 51 |
| Total Operating expenses | 5,855 | 5,280 | 5,950 | 5,987 | 22,603 | 5,697 | 5,410 | 5,980 | 6,054 | 23,171 |
| Gains/losses sale of other assets (net) | 2 | 8 | 6 | 5 | 22 | 4 | 2 | 6 | 6 | 18 |
| Operating Income | 1,279 | 1,413 | 2,024 | 1,369 | 6,187 | 1,479 | 1,570 | 2,169 | 1,441 | 6,629 |
| Equity in earnings of unconsolidated affiliates | | | | | | | | | | |
| Equity in earnings of unconsolidated affiliates | 25 | 36 | 26 | 21 | 113 | 22 | 35 | 26 | 28 | 111 |
| Impairments/Gains on unconsol affiliates sales | | | | | | | | | | |
| Other Income/Expenses | 89 | 115 | 89 | 102 | 392 | 85 | 108 | 87 | 88 | 368 |
| Total other income/expenses | 114 | 151 | 115 | 123 | 505 | 107 | 143 | 113 | 116 | 479 |
| Interest expense | | | | | | | | | | |
| Interest expense | 587 | 607 | 621 | 679 | 2,439 | 692 | 704 | 721 | 728 | 2,845 |
| Income from Cont Ops before Income Taxes | | | | | | | | | | |
| Income from Cont Ops before Income Taxes | 806 | 957 | 1,518 | 813 | 4,253 | 894 | 1,001 | 1,555 | 829 | 4,279 |
| Income tax expense | | | | | | | | | | |
| Income tax expense | 14 | 77 | 128 | 45 | 342 | 49 | 50 | 86 | 42 | 227 |
| Income from Cont Operations | | | | | | | | | | |
| Income from Cont Operations | 820 | 880 | 1,390 | 768 | 3,911 | 845 | 951 | 1,469 | 787 | 4,052 |
| Income (loss) from Discontinued Ops | | | | | | | | | | |
| Income (loss) from Discontinued Ops | | | 23 | | -1,323 | | | | | |
| Net Income | | | | | | | | | | |
| Net Income | 820 | 880 | 1,413 | 768 | 2,588 | 845 | 951 | 1,469 | 787 | 4,052 |
| Net Income/loss attributable to non-controlling interest | | | | | | | | | | |
| Net Income/loss attributable to non-controlling interest | 37 | 27 | 9 | 8 | 81 | 28 | 18 | 9 | 36 | 91 |
| 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 | 834 | 955 | 1,439 | 809 | 4,037 |
| Diluted EPS | | | | | | | | | | |
| Diluted EPS | \$1.08 | \$1.14 | \$1.81 | (\$0.71) | \$3.33 | \$1.08 | \$1.24 | \$1.86 | \$1.05 | \$5.23 |
| Diluted EPS Adjustments | | | | | | | | | | |
| Diluted EPS Adjustments | \$1.08 | \$1.14 | \$1.81 | (\$0.71) | \$3.33 | \$1.08 | \$1.24 | \$1.86 | \$1.05 | \$5.23 |
| Adjustments | \$0.22 | \$0.00 | \$0.03 | \$1.82 | \$1.94 | \$0.24 | \$0.11 | \$0.02 | \$0.04 | \$0.41 |
| Adjusted Diluted EPS | | | | | | | | | | |
| Adjusted Diluted EPS | \$1.30 | \$1.14 | \$1.78 | \$1.11 | \$5.27 | \$1.32 | \$1.35 | \$1.88 | \$1.09 | \$5.64 |

Important Disclosures

Daily | DUK Duke Energy Corporation NEW C: 92.95 Chg: -1.82



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 1.79x book value/share of \$61.51/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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