

June 18, 2024

CURRENT PRICE: \$100.03
RATING: BUY
PRICE TARGET: \$110
CURRENT YIELD: 4.1%

EPS Estimates

	DEC 23A	DEC 24E
1Q	\$1.20	\$1.44A
2Q	\$0.91	\$1.08
3Q	\$1.94	\$1.83
4Q	\$1.51	\$1.61
	\$5.26	\$5.96

Trading Data

52-WEEK PRICE RANGE: **\$104.87-\$83.06**
 SHARES OUTSTANDING: **771(M)**
 MARKET CAP: **\$77,123(M)**
 AVG. DAILY TRADING VOLUME: **2.7(M)**
 S&P 500: **5,473**

Valuation Data

BOOK VALUE: **\$61.75**
 PRICE TO BOOK: **1.62x**
 DIVIDEND: **\$4.10**

Duke Energy (NYSE: DUK)

1Q24 Earnings Results-Maintain Buy rating

Highlights

- Adjusted diluted 1Q24 earnings of \$1.40/share vs. \$1.20/share
- Positive impacts from higher rates/riders & weather
- Moving towards regulated business revenue model
- Provided 2024 adjusted earnings guidance of \$5.85-\$6.10/share
- Maintain BUY rating & \$110/share price target

Investment Thesis

Wall Street expects the US economy's continued 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 4.1% 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 8.4 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 54,800 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 1.7 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 1Q24 operating earnings of \$1.44/share vs. \$1.01/share during 1Q23. The improvement came mainly from higher profits in the Electric Utilities & Infrastructure unit. When comparing the two quarters, total operating revenues rose to \$7.67 billion from \$7.28 billion, total operating expenses increased to \$5.72 billion from \$5.61 billion, and operating income improved to \$1.96 billion from \$1.67 billion. The majority of revenue, and profit growth, came from the Electric Utilities & Infrastructure unit. Operating results decreased in the Gas Utilities & Infrastructure and Other units. Adjusted operating earnings, when comparing the two quarters, rose to \$1.44/share from \$1.20/share. Management attributed improvement to favorable weather conditions, positive rate case impacts, and growth from riders as well as other retail margins. These positives were partly offset by higher interest expense.

SEGMENT RESULTS

ELECTRIC UTILITY & INFRASTRUCTURE: On a both reported and adjusted basis, segment income was \$1.02 billion vs. \$791 million when comparing 1Q24 to 1Q23. This equated to an improvement of \$0.29/share and came from favorable weather, volume growth, positive rate case impacts, growth from riders, and increased retail margins. These positives were partly offset by higher depreciation on a larger asset base and higher interest expense.

When comparing 1Q24 to 1Q23, total electric sales rose 4.1% to 60,610 GWh due to increases in unbilled sales (+30.0%), wholesale/other (+8.4%), residential (+3.8%), and general services (+2.3%). Partly offsetting these were declines in other energy sales (-11.1%) and industrial (-3.4%).

GAS UTILITIES & INFRASTRUCTURE: Both reported and adjusted segment income were \$284 million during 1Q24 compared to \$287 million during 1Q23. These results were driven mainly by growth from its riders and other retail margin and was offset by higher interest expense and increased depreciation on a larger asset base.

Gas sales increased at DUK's two local gas distribution companies (LDC) when comparing the two quarters. Duke Energy Midwest LDC throughput increased 4.3% to 33.2 Mcf and Piedmont Natural Gas LDC's sales rose 1.1% to 163.3 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 income for 1Q24 was -\$203 million compared to -\$168 million during 1Q23. The lower quarterly results were due to higher interest expense and decreased earnings by \$0.05/share.



RECENT DEVELOPMENTS:

During the 1Q24 earnings call, DUK management provided 2024 adjusted earnings guidance of \$5.85-\$6.10/share and believes future earnings could grow 5%-7% annually through 2028.

Also, during the earnings call, management said it continues to move towards its goal of carbon-neutral generation in FL which should have 1500 MWs of solar capacity in service by YE24 and intends to triple this capacity by 2035.

DUK, Amazon (AMZN-\$), Google (GOOGL-\$), Microsoft (MSFT-\$), and Nucor (NUE-\$) announced they would develop new approaches to promote carbon-free energy generation aimed to help provide future energy needs of large companies in NC and SC. In a recently signed MOU, these companies proposed developing new rate structures aimed at lowering the long-term costs of developing clean energy technologies.

Duke Energy SC reached a settlement agreement for its rate review request filed this past January. If the agreement is approved, by the Public Service Commission of South Carolina, the increase could total about \$240 million. This increase will then be reduced by \$84 million through 7/31/26 resulting in a net increase of \$156 million. Ultimately, this would result in a typical residential bill increasing approximately \$12.53/month beginning 8/1/24 and then generate another increase of \$6.42/month starting on 8/1/26.

The Florida Public Service Commission approved DUK's request to lower Florida residential customers electric bills by approximately \$5.90/month beginning in June 2024. Commercial and industrial customers will see monthly bills decrease 3.5%-7.0%.

DUK is implementing a new incentive-based pilot program to NC homeowners for installing solar generation/power storage systems called "PowerPair". This program will offer incentives up to \$9,000 to qualifying residential customers.

DUK announced the launch of an electric vehicle (EV) charging system rental program in NC. This program will allow residential and business customers to lease an EV charger from DUK.



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OUR THOUGHTS

A good earnings report, in our opinion, as DUK reported 1Q24 operating earnings of \$1.44/share vs. \$1.01/share during 1Q23. The improvement came mainly from higher profits in the Electric Utilities & Infrastructure unit. Operating results decreased in the Gas Utilities & Infrastructure and Other units. Adjusted operating earnings, when comparing the two quarters, rose to \$1.44/share from \$1.20/share. Management attributed the improvement to favorable weather conditions, positive rate case impacts, and growth from riders as well as other retail margins. These positives were partly offset by higher interest expense.

These results reflect the organizational change DUK embarked upon during the past few years focusing on generating the majority of its revenues from regulated business, evidenced by recent sales of non-regulated business units. During the 1Q24 earnings call management provided FY24 adjusted earnings guidance of \$5.85-\$6.10/share and reiterated expectations of 5%-7% adjusted earnings annually through 2028. If this earnings scenario comes to fruition, we expect DUK to continue raising its annual dividend to the common stockholders. WE continue to rate DUK a BUY with a target price of \$108/share, equating to 1.78x its book value of \$61.75/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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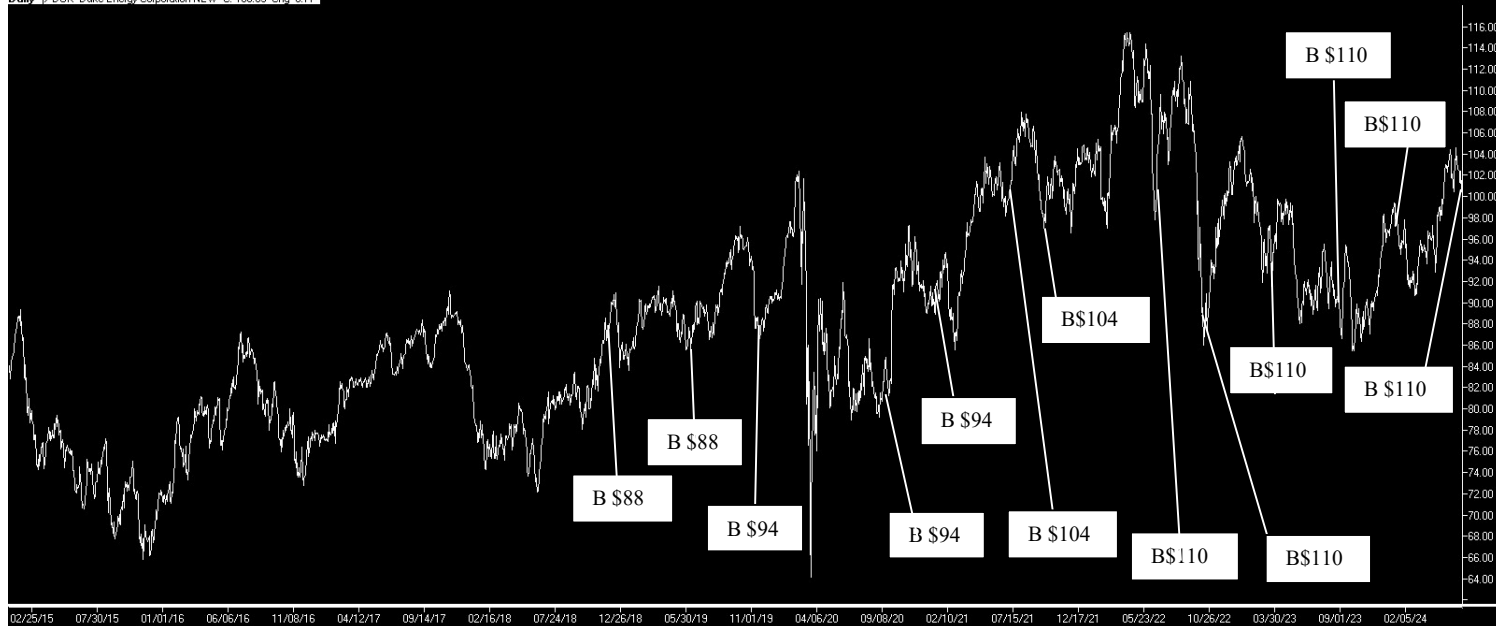
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Duke Energy
Condensed Consolidated Statements of Operations
unaudited
(in millions, except per share amounts)

	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24e	3Q24e	4Q24e	FY24e
Operating Revenues:										
Regulated electric	\$6,324	\$6,176	\$7,640	\$6,477	\$26,617	\$6,372	\$6,489	\$7,913	\$6,576	\$27,350
Regulated natural gas	882	331	284	655	2,152	866	482	527	748	2,623
Non-regulated electric/other	70	71	70	80	291	73	71	74	82	300
Total Operating revenues	7,276	6,578	7,994	7,212	29,060	7,671	7,042	8,514	7,406	30,633
Operating Expenses:										
Fuel electric gen. & purchased power-reg	2,377	2,039	2,571	2,099	9,086	2,335	2,457	2,981	2,137	9,910
Cost of natural gas & coal sold	298	79	57	159	593	232	98	64	143	537
Operation, maintenance, & other	1,310	1,375	1,428	1,512	5,625	1,379	1,326	1,474	1,348	5,527
Depreciation & Amortization	1,227	1,333	1,353	1,340	5,253	1,387	1,395	1,388	1,521	5,691
Property & other taxes	389	353	394	264	1,400	386	298	360	272	1,316
Impairment charges	8		88	11	85	1	3		12	16
Total Operating expenses	5,609	5,179	5,891	5,363	22,042	5,720	5,571	6,267	5,433	22,991
Gains/losses sale of other assets (net)	7	31	8	6	52	12			6	18
Operating Income	1,674	1,430	2,111	1,855	7,070	1,963	1,471	2,251	1,979	7,664
Equity in earnings of unconsolidated affiliates	20	20	45	28	113	17	21	42	38	118
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	151	147	133	167	598	169	144	127	133	573
Total other income/expenses	171	167	178	195	711	186	165	169	171	691
Interest expense	720	727	774	793	3,014	817	822	822	829	3,290
Income from Cont Ops before Income Taxes	1,125	870	1,515	1,257	4,767	1,332	814	1,598	1,321	5,065
Income tax expense	155	119	42	122	438	178	113	223	178	692
Income from Cont Operations	970	751	1,473	1,135	4,329	1,154	701	1,375	1,143	4,373
Income (loss) from Discontinued Ops	-209	-955	-152	-108	-1,455	-3				-3
Net Income	761	-204	1,321	1,027	2,874	1,151	701	1,375	1,143	4,370
Net Income/loss attributable to non-controlling interest	43	16	69	22	33	-13	-15	-21	-6	-61
Income from disc. Operations										
Discontinued Operations										
Preferred Dividends	39	14	39	14	106	-39	-14	-39	-14	-106
Net Income attributable to Duke Energy	765	-234	1,213	991	2,735	1,099	672	1,325	1,123	4,219
Diluted EPS	\$1.01	(\$0.32)	\$1.59	\$1.27	\$3.54	\$1.44	\$0.87	\$1.72	\$1.46	\$5.49
Diluted EPS	\$1.01	(\$0.32)	\$1.59	\$1.27	\$3.54	\$1.44	\$0.87	\$1.72	\$1.46	\$5.49
Adjustments	\$0.19	\$1.23	\$0.35	\$0.24	\$2.02		\$0.21	\$0.11	\$0.15	\$0.47
Adjusted Diluted EPS	\$1.20	\$0.91	\$1.94	\$1.51	\$5.56	\$1.44	\$1.08	\$1.83	\$1.61	\$5.96

Important Disclosures

Daily | DUK Duke Energy Corporation NEW | C:100.03 | Chg:-0.77



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 1.78x book value/share of \$61.75/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.



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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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