

September 11, 2024

CURRENT PRICE: \$116.20
RATING: BUY
PRICE TARGET: \$120
CURRENT YIELD: 3.6%

EPS Estimates

	DEC 23A	DEC 24E
1Q	\$1.20	\$1.44A
2Q	\$0.91	\$1.18A
3Q	\$1.94	\$1.83
4Q	\$1.51	\$1.61
	\$5.26	\$6.06

Trading Data

52-WEEK PRICE RANGE: **\$118.18-\$83.06**
 SHARES OUTSTANDING: **772(M)**
 MARKET CAP: **\$89,706(M)**
 AVG. DAILY TRADING VOLUME: **2.7(M)**
 S&P 500: **5,554**

Valuation Data

BOOK VALUE: **\$61.69**
 PRICE TO BOOK: **1.88x**
 DIVIDEND: **\$4.18**

Duke Energy (NYSE: DUK)

Maintain Buy Rating & Raising Price Target

Highlights

- Adjusted diluted 2Q24 earnings of \$1.18/share vs. \$0.91/share
- Positive impacts from higher rates/riders & weather
- DUK expects 1%-2% electric load growth over next 5 years
- Reaffirmed 2024 adjusted earnings guidance of \$5.85-\$6.10/share
- Maintain BUY rating & raising price target to \$120

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 3.6% dividend yield and offers dividend/earnings growth potential going forward. DUK is rated BUY and our price target is \$120/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 2Q24 operating earnings of \$1.13/share vs. (\$0.32)/share during 2Q23. The improved results came from increased revenues due to higher rates, larger electric sales volumes, and favorable weather patterns during 2Q24. Additionally, 2Q23 results included a post-tax charges for discontinued operations (\$955 million). Segment income improved in the Electric Utilities & Infrastructure unit while declining in the Gas Utilities & infrastructure unit. When comparing the two quarters, total revenues rose to \$6.75 billion from \$6.18 billion, total operating expenses increased to \$5.47 billion from \$5.18 billion, and operating income improved to \$1.71 billion from \$1.43 billion. Adjusted operating earnings increased to \$1.18/share from \$0.91/share as DUK benefited from an increase in rates/riders, higher volumes of electric sales, and favorable weather. These were partly offset by higher interest expense and larger depreciation on an increasing asset base.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: Segment income rose to \$1.08 billion from \$850 million. The improvement came from rate increases from riders, higher electric sales, and improved weather. Adjusted segment income improved to \$1.12 billion from \$850 million due to growth from rate increases/riders, higher electric sales, and improved weather. These positives were partly offset by higher depreciation on a larger asset base and increased interest expense. These factors improved earnings by \$0.34/share.

When comparing 2Q24 to 2Q23, total electric sales rose 8.1% to 64,976 GWh due to increases in Unbilled sales (+86.7%), Wholesale/other (+16.1%), Residential (+5.8%), and General Service (+5.7%). Partly offsetting these gains were decreases in Other Energy Sales (-5.8%) and Industrial (-0.8%).

GAS UTILITIES & INFRASTRUCTURE: Both reported and adjusted segment income decreased to \$6 million from \$25 million. These lower results came from higher expenses and were partly offset by growth from riders and other retail margin. These results hurt earnings by \$0.02/share.

Gas sales results were mixed at DUK's two local gas distribution companies (LDC) when comparing the two quarters. Piedmont Natural Gas LDC's throughput rose 4.9% to 128.27 million dekatherms and the Energy Midwest LDC's throughput declined 5.6% to 12.97 million Mcf.

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 fell to -\$200 million from -\$161 million. The decline in results was due mainly to higher interest expense and results from this unit caused earnings to fall \$0.05/share.



RECENT DEVELOPMENTS:

During the 2Q24 earnings conference call, management reaffirmed 2024 adjusted earnings guidance of \$5.85-\$6.10/share and 5%-7% earnings growth through 2028 based on a \$5.98/share midpoint during 2024.

Additionally, during the 2Q24 earnings call, DUK said electric sales improved 1.9% from last year's levels, as customer growth, led by the Carolinas & Florida, grew 2.4%. Management expects 2% load growth this year, and 1%-2% annual load growth during the next 5 years.

As part of an annual adjustment for the cost of fuel used at electric generating plants, DUK will lower rates to its NC customers by 3.6% starting 1/1/25, while commercial customers will see a 7.4% reduction, and industrial customers' rates will be lowered less than 1%.

This past August, the Fla. Public Service Commission approved DUK's multiyear agreement without modifications. Estimates are this will save Florida customers 5% on electric bills starting 1/1/25.

Duke Energy Carolinas proposed a reduction in annual adjustment for fuel costs with the Public Service Commission of SC (PSCSC). Potentially, this could lower residential and commercial customers average monthly residential bill by 13.8% & 16.2% for industrial customers.

Enrollment for DUK's new PowerPair pilot program recently surpassed 1,300 customers in NC. This is a one-time incentive based program aimed at making a home solar plus battery system more affordable to customers. The program offers up to \$9,000 in incentives to participants who install new solar plus battery systems.

PSCSC approved new rates for Duke Energy Carolinas customers in SC. Starting 8/1/24, typical residential customer rates rose 8.7% & will increase another 4.3% starting 8/1/26. Industrial and commercial customers rates rose 4.4% and 4.6%, respectively.



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MANAGEMENT, INC.

**EQUITY
RESEARCH**

OUR THOUGHTS

Good earnings 2Q24 earnings results as DUK reported operating earnings of \$1.13/share vs. (\$0.32)/share during 2Q23. The improved results came from increased revenues due to higher rates, larger electric sales volumes, and favorable weather patterns during 2Q24. Additionally, 2Q23 results included a post-tax charges for discontinued operations (\$955 million). Segment income improved in the Electric Utilities & Infrastructure unit while declining in the Gas Utilities & infrastructure unit. Adjusted operating earnings increased to \$1.18/share from \$0.91/share as DUK benefited from an increase in rates/riders, higher volumes of electric sales, and favorable weather. These positives were partly offset by higher interest expense and larger depreciation on an increasing asset base.

During the 2Q24 conference call management reaffirmed 2024 adjusted earnings guidance of \$5.85-\$6.10/share and 5%-7% earnings growth through 2028. In our opinion, under this earnings scenario, DUK shareholders could see another dividend increase during the next 12 months. DUK's shares have been recently rewarded rising to a 52-week high of \$XX/share due to Wall Street's perception of the Fed Reserve lowering interest rates and the forward earnings visibility provided by management. Since DUK exceeded our prior target of \$110/share, we are raising our price target to \$120/share, equating to 1.95x the stock's book value/share of \$61.69. We maintain a BUY rating on DUK.

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.

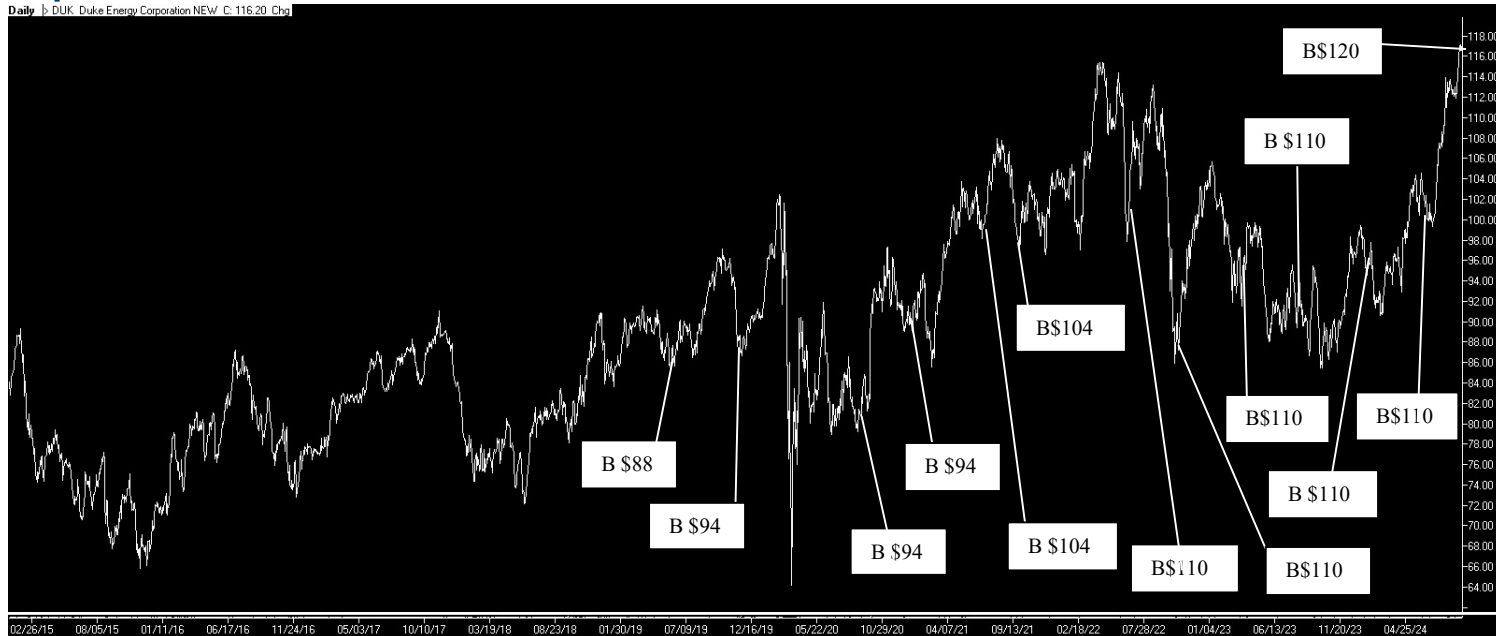
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Duke Energy
Condensed Consolidated Statements of Operations
unaudited
(in millions, except per share amounts)

	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24e	4Q24e	FY24e
Operating Revenues:										
Regulated electric	\$6,324	\$6,176	\$7,640	\$6,477	\$26,617	\$6,372	\$6,746	\$7,913	\$6,576	\$27,607
Regulated natural gas	882	331	284	655	2,152	866	347	527	748	2,488
Non-regulated electric/other	70	71	70	80	291	73	79	74	82	308
Total Operating revenues	7,276	6,578	7,994	7,212	29,060	7,671	7,172	8,514	7,406	30,763
Operating Expenses:										
Fuel electric gen. & purchased power-reg	2,377	2,039	2,571	2,099	9,086	2,335	2,228	2,981	2,137	9,681
Cost of natural gas & coal sold	298	79	57	159	593	232	78	64	143	517
Operation, maintenance, & other	1,310	1,375	1,428	1,512	5,625	1,379	1,320	1,474	1,348	5,521
Depreciation & Amortization	1,227	1,333	1,353	1,340	5,253	1,387	1,409	1,388	1,521	5,705
Property & other taxes	389	353	394	264	1,400	386	393	360	272	1,411
Impairment charges	8		88	11	85	1	43		12	56
Total Operating expenses	5,609	5,179	5,891	5,363	22,042	5,720	5,471	6,267	5,433	22,891
Gains/losses sale of other assets (net)	7	31	8	6	52	12	6		6	24
Operating Income	1,674	1,430	2,111	1,855	7,070	1,963	1,707	2,251	1,979	7,900
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	167	127	133	596
Total other income/expenses	171	167	178	195	711	186	188	169	171	714
Interest expense	720	727	774	793	3,014	817	824	822	829	3,292
Income from Cont Ops before Income Taxes	1,125	870	1,515	1,257	4,767	1,332	1,071	1,598	1,321	5,322
Income tax expense	155	119	42	122	438	178	140	223	178	719
Income from Cont Operations	970	751	1,473	1,135	4,329	1,154	931	1,375	1,143	4,603
Income (loss) from Discontinued Ops	-209	-955	-152	-108	-1,455	-3	-10			-13
Net Income	761	-204	1,321	1,027	2,874	1,151	921	1,375	1,143	4,590
Net Income/loss attributable to non-controlling interest	43	16	69	22	33	-13	-21	-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	886	1,325	1,123	4,433
Diluted EPS	\$1.01	(\$0.32)	\$1.59	\$1.27	\$3.54	\$1.44	\$1.13	\$1.72	\$1.46	\$5.75
Diluted EPS	\$1.01	(\$0.32)	\$1.59	\$1.27	\$3.54	\$1.44	\$1.13	\$1.72	\$1.46	\$5.75
Adjustments	\$0.19	\$1.23	\$0.35	\$0.24	\$2.02		\$0.05	\$0.11	\$0.15	\$0.31
Adjusted Diluted EPS	\$1.20	\$0.91	\$1.94	\$1.51	\$5.56	\$1.44	\$1.18	\$1.83	\$1.61	\$6.06

Important Disclosures

Daily | B DUK Duke Energy Corporation NEW C:116.20 Chg



9/11/24 Raise Price Target to \$120
 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

\$120 price target equates to 1.95x book value/share of \$61.69/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.



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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