Duke Energy Corporation (DUK)

Updated August 13th, 2021 by Samuel Smith

Key Metrics

Current Price:	$107	**5 Year CAGR Estimate:**	2.0%	**Market Cap:**	$83B
Fair Value Price:	$78	**5 Year Growth Estimate:**	4.4%	**Ex-Dividend Date:**	8/12/21
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Dividend Payment Date:**	9/16/21
Dividend Yield:	3.7%	**5 Year Price Target**	$96	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.9%

Overview & Current Events

Duke Energy began operations in 1904 by providing power to a South Carolina cotton mill. Since that time, it has grown both organically and through mergers to become one of the largest providers of energy in the US. Today, it produces about $26 billion in annual revenue and trades with a market capitalization of $83 billion.

On August 5th, Duke Energy reported Q2 earnings. Q2 adjusted earnings grew to $1.15 per share year-over-year from $1.08 in earnings-per-share while EPS for the quarter stood at $0.96. Revenue came in at $5.76 billion, up 6.3% from the year-ago period. The company reported that the improved Q2 results were primarily driven by the growth in Electric Utilities and infrastructure, and higher volumes and higher wholesale earnings. Moreover, adjusted income for the Gas Utilities and infrastructures segment stood at $17 million from a $1.576 billion loss in the year-ago period. Electric Utilities and Infrastructure segment increased 24% to $935 million from $753 million year-over-year. Meanwhile, the company reaffirmed its full-year adjusted EPS guidance of $5.00 to $5.30 and long-term adjusted earnings per share growth rate of 5% to 7% through 2025.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$4.14	$3.71	$3.98	$4.13	$4.10	$3.71	$4.22	$4.72	$5.06	$5.12	***$5.19***	***$6.43***
DPS	$2.97	$3.03	$3.09	$3.15	$3.24	$3.36	$3.49	$3.60	$3.71	$3.82	***$3.94***	***$4.50***
Shares[1]	445	704	706	707	688	700	700	705	730	738	***745***	***775***

Duke's earnings-per-share have increased at an annual rate of 4% over the last decade, and we expect to see Duke continuing to generate 4.4% annualized earnings-per-share growth over the next half decade as we expect management to deliver earnings-per-share above guidance for 2021, and therefore giving them a higher base from which to grow against. The key determiners of Duke's value proposition to investors will be how well they can execute on their ambitious $37 billion growth CapEx plan, and if they can continue to garner favorable regulatory rulings in their operating regions. While they continue to achieve reasonable regulatory rulings, there are no guarantees this will continue, especially given that government energy policies have shifted with the 2020 election results. We therefore take a cautious and conservative outlook on growth, projecting Duke achieving the low end of its guidance.

That being said, customer growth should continue as a low-single-digit tailwind for the foreseeable future, providing Duke with ever-higher base demand for its services. Of course, the weather can have a significant impact positively or negatively in any particular year, but overall, a low-single-digit tailwind from customer growth is very likely. In addition, rate increases should help boost revenue and earnings, as we've seen with Duke's recent rate increases in North Carolina and Kentucky. Duke, like any other power provider, must ask for rate increases from local authorities so they are certainly not assured. However, state regulators have been amicable to rate increase requests from Duke and should continue to be moving forward. One offsetting factor in earnings-per-share growth is that Duke likes to issue common stock for general corporate purposes, leading to a higher share count over time. Its share count has risen from 424 million in 2008 to 745 million today. Share issuances are irregularly timed and sized so the exact impact is difficult to

[1] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

predict, but this is a long-term habit for Duke and must be accounted for in estimates. The dividend continues to rise at a low-single-digit pace, slightly under that of earnings-per-share growth. We expect this will continue, keeping Duke firmly in the income stock category. We see dividend growth roughly keeping pace with growth in the share price.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.7	13.8	17.5	17.4	17.9	18.2	21.3	19.9	18.6	19.1	***20.6***	***15.0***
Avg. Yld.	5.6%	5.9%	4.4%	4.4%	4.4%	5.0%	3.9%	3.8%	3.9%	3.9%	***3.7%***	***4.7%***

Duke's valuation has remained mostly steady throughout the past decade, with the exception of the period immediately following the Great Recession. Duke's price-to-earnings ratio has averaged 17 over the past decade, but given current headwinds, we are reducing the fair value to 15 times earnings. Today's price-to-earnings ratio of 20.6 is above our reduced fair value estimate, and we therefore see a headwind to annual total returns from a contracting multiple over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

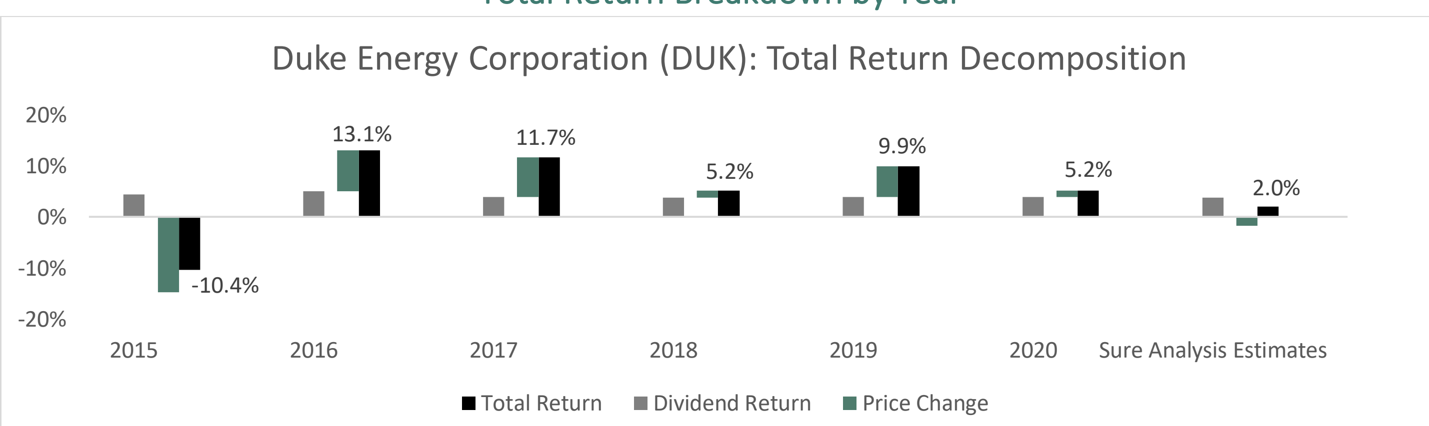
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	72%	82%	78%	76%	79%	91%	83%	76%	73%	75%	***76%***	***70%***

Duke's quality metrics have been largely stable throughout the past decade and we do not expect that will change. We expect margins to be flat moving forward – albeit at very high levels – and for its balance sheet leverage and interest coverage to remain steady. Management has a stated plan to reduce leverage moving forward as it plans to boost cash flow against the amount of debt it takes on, so we are not concerned. The payout ratio is relatively high, but the dividend is well-covered, and should be for the foreseeable future. Duke's competitive advantage is its near monopoly in the areas it serves, which is not dissimilar to other regulated utilities. In addition, recession performance should be excellent as it grew earnings-per-share rather rapidly during the Great Recession, making this is a truly defensive stock with a high yield and decent growth prospects.

Final Thoughts & Recommendation

We expect Duke to produce 2.0% annualized total returns from its 3.7% current yield and 4.4% expected earnings-per-share growth, partially offset by a headwind from multiple contraction. Its highly defensive business model should position it well to weather current uncertainty from the coronavirus pandemic and any recession or depression to follow. We therefore rate it a sell at current prices as its attractive and growing dividend is offset by lackluster total return potential.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	14529	17912	22756	22509	22371	22743	23565	24521	25079	23868
Gross Profit	5614	6677	9211	9086	9336	9629	10639	10530	11560	11569
Gross Margin	38.6%	37.3%	40.5%	40.4%	41.7%	42.3%	45.1%	42.9%	46.1%	48.5%
D&A Exp.	2026	2652	3229	3507	3613	3880	4046	4696	5176	
Operating Profit	3104	3567	5269	4913	5154	5193	5879	5176	5705	5527
Op. Margin	21.4%	19.9%	23.2%	21.8%	23.0%	22.8%	24.9%	21.1%	22.7%	23.2%
Net Profit	1706	1768	2665	1883	2816	2152	3059	2666	3748	1377
Net Margin	11.7%	9.9%	11.7%	8.4%	12.6%	9.5%	13.0%	10.9%	14.9%	5.8%
Free Cash Flow	(691)	(257)	856	1202	(66)	(1038)	(1428)	(2203)	(2913)	8856
Income Tax	752	623	1205	1225	1256	1156	1196	448	519	(236)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	62526	113856	114779	120557	121156	132761	137914	145392	158838	162388
Cash & Equivalents	2110	1424	1501	2036	383	392	358	442	311	259
Acc. Receivable	1941	2717	3005	2764	2263	2644	2774	3134	3060	3153
Inventories	1588	3223	3250	3459	3746	3522	3250	3084	3232	3167
Goodwill & Int.	4212	16365	16340	16321	16072	19425	19396	19303	19303	19303
Total Liab.	39661	72822	73371	79658	81385	91720	96177	101558	110887	113204
Accounts Payable	1433	2444	2391	2271	2350	2994	3043	3487	3487	3144
Long-Term Debt	21000	40518	41095	42382	42501	50382	54442	56998	60292	62736
Total Equity	22772	40863	41330	40875	39727	41033	41739	43817	44860	46002
D/E Ratio	0.92	0.99	0.99	1.04	1.07	1.23	1.30	1.30	1.29	1.31

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.8%	2.0%	2.3%	1.6%	2.3%	1.7%	2.3%	1.9%	2.5%	0.9%
Return on Equity	7.5%	5.6%	6.5%	4.6%	7.0%	5.3%	7.4%	6.2%	8.5%	3.0%
ROIC	4.0%	2.8%	3.2%	2.3%	3.4%	2.5%	3.3%	2.7%	3.6%	1.3%
Shares Out.	445	704	706	707	688	700	700	705	730	738
Revenue/Share	32.72	31.15	32.23	31.84	32.23	32.91	33.66	34.63	34.40	32.34
FCF/Share	(1.56)	(0.45)	1.21	1.70	(0.10)	(1.50)	(2.04)	(3.11)	(4.00)	12.00

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.