



Duke Energy Corporation (DUK)

Updated March 3rd, 2022 by Samuel Smith

Key Metrics

Current Price:	\$100.8	5 Year CAGR Estimate:	4.5%	Market Cap:	\$77.3B
Fair Value Price:	\$81.1	5 Year Growth Estimate:	4.8%	Ex-Dividend Date:	05/17/22 ¹
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.0%	Dividend Payment Date:	06/16/22 ²
Dividend Yield:	3.9%	5 Year Price Target	\$104	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	2.1%

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 \$77.3 billion.

On February 10th, Duke Energy reported Q4 earnings. Q4 adjusted earnings stood at \$0.94 per share year-over-year. Revenue increased 8.0% to \$6.24 billion year-over-year. Q4 strong results were caused by constructive rate case outcomes and continued customer growth in electric and gas segments. Moreover, electric and infrastructure division Q4 net income stood at \$670 million compared to \$170 million loss in the year-ago period. Meanwhile, the company released its full year 2022 adjusted EPS guidance of \$5.30 to \$5.60 and increased long-term adjusted earnings per share growth rate of 5% to 7% through 2026 from the original 2021 midpoint of \$5.15.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.32	\$4.35	\$4.55	\$4.54	\$4.69	\$4.57	\$4.72	\$5.06	\$5.12	\$5.24	\$5.47	\$6.90
DPS	\$3.03	\$3.09	\$3.15	\$3.24	\$3.36	\$3.49	\$3.60	\$3.71	\$3.82	\$3.90	\$3.94	\$4.80
Shares³	704.7	706.5	707.6	688.4	699.6	700.1	727.0	733.3	768.7	769.0	769.0	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 4.8% 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 give 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 769 million today. Share issuances are irregularly timed and sized so the exact impact is difficult to

¹ Estimate

² Estimate

³ Share count in millions

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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.8	17.5	17.4	17.9	18.2	21.3	19.9	18.6	19.1	19.4	18.4	15.0
Avg. Yld.	5.9%	4.4%	4.4%	4.4%	5.0%	3.9%	3.8%	3.9%	3.9%	4.0%	3.9%	4.6%

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 18.4 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

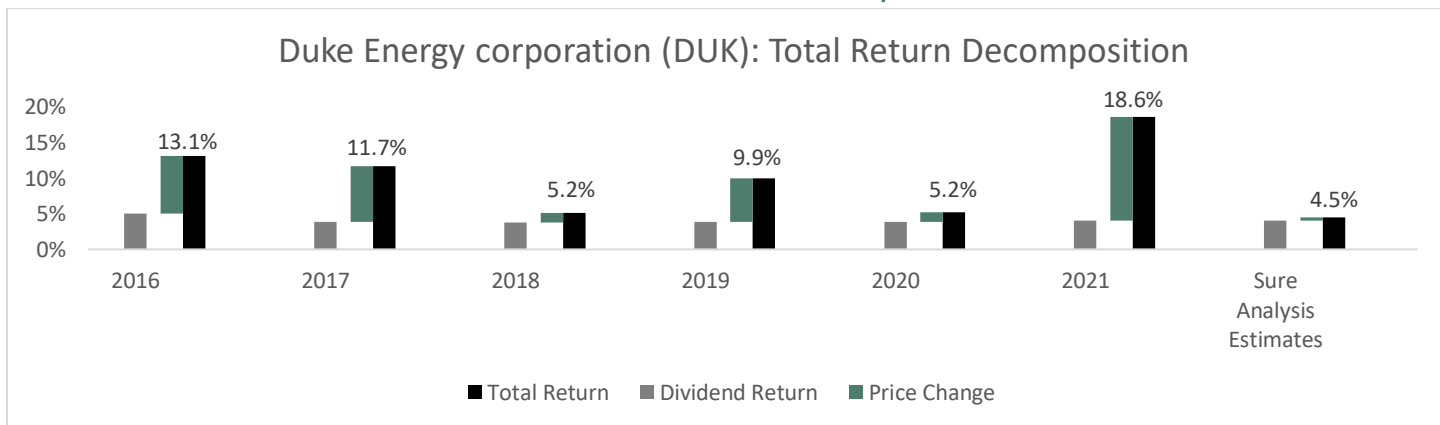
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	82%	78%	76%	79%	91%	83%	76%	73%	75%	76%	72%	70%

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 a truly defensive stock with a high yield and decent growth prospects.

Final Thoughts & Recommendation

We expect Duke to generate 4.5% annualized total returns from its 3.9% current yield and 4.8% 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 Hold 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	17,912	22,756	22,509	22,371	22,743	23,565	24,521	25,079	23,868	25,097
Gross Profit	6,677	9,211	9,086	9,336	9,629	10,639	10,530	11,560	11,569	12,095
Gross Margin	37.3%	40.5%	40.4%	41.7%	42.3%	45.1%	42.9%	46.1%	48.5%	48.2%
D&A Exp.	2,652	3,229	3,507	3,613	3,880	4,046	4,696	5,176	5,486	5,663
Operating Profit	3,567	5,269	4,913	5,154	5,193	5,879	5,176	5,705	5,527	5,716
Op. Margin	19.9%	23.2%	21.8%	23.0%	22.8%	24.9%	21.1%	22.7%	23.2%	22.8%
Net Profit	1,768	2,665	1,883	2,816	2,152	3,059	2,666	3,748	1,377	3,908
Net Margin	9.9%	11.7%	8.4%	12.6%	9.5%	13.0%	10.9%	14.9%	5.8%	15.6%
Free Cash Flow	(257)	856	1,202	(66)	(1,038)	(1,428)	(2,203)	(2,913)	(1,051)	(1,425)
Income Tax	623	1,205	1,225	1,256	1,156	1,196	448	519	(236)	192

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	113.86	114.78	120.56	121.16	132.76	137.91	145.39	158.84	162.39	169.59
Cash & Equivalents	1,424	1,501	2,036	383	392	358	442	311	259	343
Acc. Receivable	2,717	3,005	2,764	2,263	2,644	2,774	3,134	3,060	3,153	3,610
Inventories	3,223	3,250	3,459	3,746	3,522	3,250	3,084	3,232	3,167	3,199
Goodwill & Int.	16,365	16,340	16,321	16,072	19,425	19,396	19,303	19,303	19,303	19,303
Total Liab. (\$B)	72.82	73.37	79.66	81.39	91.72	96.18	101.56	110.89	113.20	118.45
Accounts Payable	2,444	2,391	2,271	2,350	2,994	3,043	3,487	3,487	3,144	3,629
LT Debt (\$B)	40.52	41.10	42.38	42.50	50.38	54.44	57.00	61.26	62.74	67.14
Total Equity (\$B)	40.86	41.33	40.88	39.73	41.03	41.74	43.82	44.86	46.00	47.33
LTD/E Ratio	0.99	0.99	1.04	1.07	1.23	1.30	1.30	1.31	1.31	1.36

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.0%	2.3%	1.6%	2.3%	1.7%	2.3%	1.9%	2.5%	0.9%	2.4%
Return on Equity	5.6%	6.5%	4.6%	7.0%	5.3%	7.4%	6.2%	8.5%	3.0%	8.4%
ROIC	2.8%	3.2%	2.3%	3.4%	2.5%	3.3%	2.7%	3.6%	1.2%	3.4%
Shares Out.	704.7	706.5	707.6	688.4	699.6	700.1	727.0	733.3	768.7	769.0
Revenue/Share	31.15	32.23	31.84	32.23	32.91	33.66	34.63	34.40	32.34	32.64
FCF/Share	(0.45)	1.21	1.70	(0.10)	(1.50)	(2.04)	(3.11)	(4.00)	(1.42)	(1.85)

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

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