# Duke Energy Corporation (DUK)

*Updated November 24th, 2022 by Samuel Smith*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $98.5 | **5 Year CAGR Estimate:** | 4.7% | **Market Cap:** | $74.7B |
| **Fair Value Price:** | $80.0 | **5 Year Growth Estimate:** | 5.0% | **Ex-Dividend Date:** | 02/17/23[1] |
| **% Fair Value:** | 123% | **5 Year Valuation Multiple Estimate:** | -4.1% | **Dividend Payment Date:** | 12/16/22 |
| **Dividend Yield:** | 4.1% | **5 Year Price Target** | $102 | **Years Of Dividend Growth:** | 11 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | B | **Rating:** | Hold |

## 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 $74.7 billion.

On November 3rd, Duke Energy reported Q3 earnings. Q3 Non-GAAP EPS of $1.78 missed analyst consensus estimates by $0.07. Revenue of $7.97B (+14.7% Y/Y) beat analyst consensus estimates by $520M. Management updated its 2022 adjusted EPS guidance range and introduced its 2023 adjusted EPS guidance range, both excluding Commercial Renewables. The 2022 guidance range is adjusted EPS of $5.20 to $5.30, with a midpoint of $5.25 vs $5.45 consensus. The 2023 adjusted EPS guidance range was $5.55 to $5.75, with a midpoint of $5.65 vs $5.74 consensus. The company also expects its long-term growth rate to be 5% to 7% through 2027 off the $5.65 midpoint of 2023 adjusted EPS guidance.

## 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 | ***$5.33*** | ***$6.81*** |
| **DPS** | $3.03 | $3.09 | $3.15 | $3.24 | $3.36 | $3.49 | $3.60 | $3.71 | $3.82 | $3.90 | ***$4.02*** | ***$4.56*** |
| **Shares[2]** | 704.7 | 706.5 | 707.6 | 688.4 | 699.6 | 700.1 | 727.0 | 733.3 | 768.7 | 769.0 | ***770.1*** | ***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 5% annualized earnings-per-share growth over the next half decade as we expect management to deliver earnings-per-share above guidance for 2022, 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 770 million today. Share issuances are irregularly timed and sized so the exact impact is difficult to

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[1] Estimate

[2] 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.

## 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 | ***18.5*** | ***15.0*** |
| Avg. Yld. | 5.90% | 4.40% | 4.40% | 4.40% | 5.00% | 3.90% | 3.80% | 3.90% | 3.90% | 4.00% | ***4.1%*** | ***4.5%*** |

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 been in the high teens and low 20s 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 18.5 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

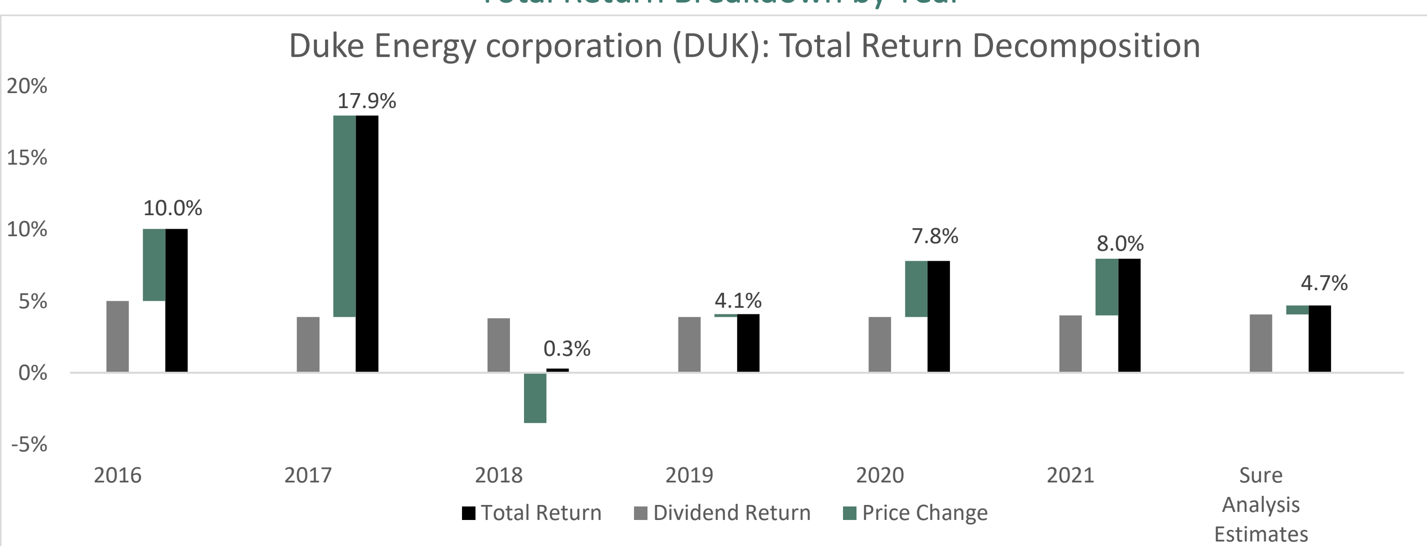
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 70% | 71% | 69% | 71% | 72% | 76% | 76% | 73% | 75% | 74% | ***75%*** | ***67%*** |

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 generate 4.7% annualized total returns from its 4.1% current yield and 5% expected earnings-per-share growth, partially offset by a headwind from multiple contraction. As a result, we rate it a Hold.

## 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.*