Duke Energy Corporation (DUK)

Updated November 13th, 2023 by Samuel Smith

Key Metrics

Current Price:	$87.0	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$68 B
Fair Value Price:	$84.9	**5 Year Growth Estimate:**	4.6%	**Ex-Dividend Date:**	11/16/23
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	12/18/23
Dividend Yield:	4.7%	**5 Year Price Target**	$106	**Years Of Dividend Growth:**	12
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 billions of dollars in annual revenue and trades with a market capitalization of $68 billion.

On November 3, 2023, Duke Energy reported its financial results for the third quarter of 2023. The company's net income for the quarter was $1.21 billion, marking a 12.2% decrease from the $1.38 billion reported in the same period of 2022. The reported earnings per share (EPS) for the quarter were $1.59, down from $1.81 a year earlier. When adjusted to exclude the impact of discontinued operations and charges linked to the North Carolina rate case settlement, the earnings stood at $1.94 per share for Q3 2023, compared to $1.78 in the previous year. The company's total operating revenues rose by 1.9% to $7.99 billion, up from $7.84 billion over the same period.

The revenues from regulated electricity increased by 3.6% to $7.64 billion, up from $7.37 billion. However, the regulated natural gas revenues fell sharply by 28.4% to $284 million from $397 million. Discontinued operations mainly included impairments from the divestment of the commercial renewables business. Duke Energy's total operating expenses also increased, rising by 1.7% to $5.89 billion from $5.79 billion. Income from the company's electric utilities and infrastructure decreased by 6% to $1.45 billion in Q3 2023, down from $1.54 billion a year previously. The adjusted income for this segment slightly decreased to $1.53 billion from $1.54 billion. The gas utilities and infrastructure segment reported an increase in income to $15 million, up from $4 million, attributed to growth from riders and other retail margins, along with reduced expenses related to operations and maintenance.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.35	$4.55	$4.54	$4.69	$4.57	$4.72	$5.06	$5.12	$5.24	$5.27	***$5.66***	***$7.09***
DPS	$3.09	$3.15	$3.24	$3.36	$3.49	$3.60	$3.71	$3.82	$3.90	$4.02	***$4.10***	***$4.71***
Shares[1]	706.5	707.6	688.4	699.6	700.1	727	733.3	768.7	769.4	770.1	***771***	***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 4.6% annualized earnings-per-share growth over the next half decade from the high base for 2023. 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. 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

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[1] Share count in millions

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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	*Now*	*2028*
Avg. P/E	17.5	17.4	17.9	18.2	21.3	19.9	18.6	19.1	19.4	18.5	***15.4***	***15.0***
Avg. Yld.	4.1%	4.0%	4.0%	3.9%	3.6%	3.8%	3.9%	3.9%	3.8%	4.1%	***4.7%***	***4.4%***

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 15.4 is above our reduced fair value estimate, and we therefore see a slight headwind to annual total returns from a contracting multiple over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

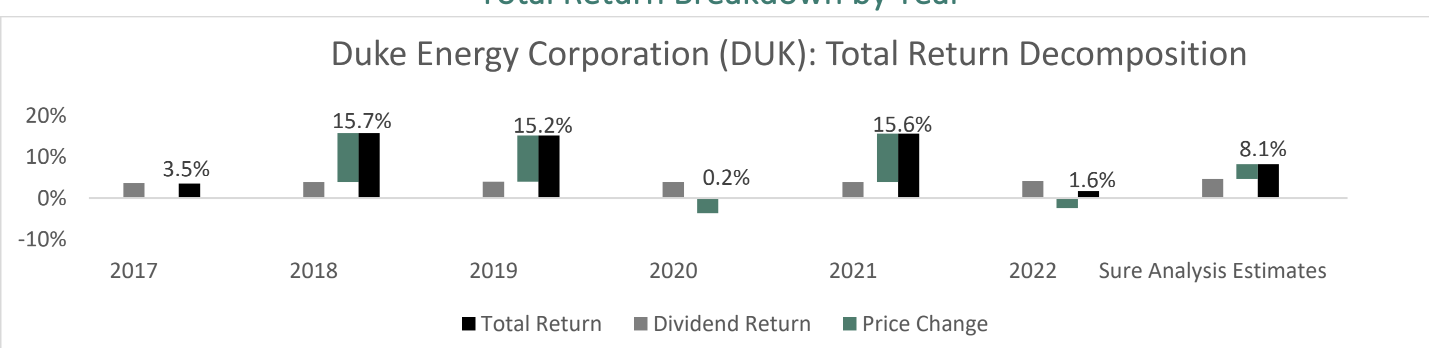
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	71%	69%	71%	72%	76%	76%	73%	75%	74%	76%	**72%**	**66%**

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 8.1% annualized total returns over the next half decade from its 4.7% current yield and 4.6% 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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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.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	22,756	22,509	22,371	22,743	23,565	24,521	25,079	23,868	25,097	28,768
Gross Profit	9,211	9,086	9,336	9,629	10,639	10,530	11,560	11,569	12,095	12,976
Gross Margin	40.5%	40.4%	41.7%	42.3%	45.1%	42.9%	46.1%	48.5%	48.2%	45.1%
D&A Exp.	3,229	3,507	3,613	3,880	4,046	4,696	5,176	5,486	5,663	5,843
Operating Profit	5,269	4,913	5,154	5,193	5,879	5,176	5,705	5,527	5,716	6,424
Op. Margin	23.2%	21.8%	23.0%	22.8%	24.9%	21.1%	22.7%	23.2%	22.8%	22.3%
Net Profit	2,665	1,883	2,816	2,152	3,059	2,666	3,748	1,377	3,908	2,550
Net Margin	11.7%	8.4%	12.6%	9.5%	13.0%	10.9%	14.9%	5.8%	15.6%	8.9%
Free Cash Flow	856	1,202	(66)	(1,038)	(1,428)	(2,203)	(2,913)	(1,051)	(1,425)	(5,440)
Income Tax	1,205	1,225	1,256	1,156	1,196	448	519	(236)	192	300

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	114.78	120.56	121.16	132.76	137.91	145.39	158.84	162.39	169.59	178
Cash & Equivalents	1,501	2,036	383	392	358	442	311	259	343	409
Acc. Receivable	3,005	2,764	2,263	2,644	2,774	3,134	3,060	3,153	3,610	4,415
Inventories	3,250	3,459	3,746	3,522	3,250	3,084	3,232	3,167	3,199	3,584
Goodwill & Int.	16,340	16,321	16,072	19,425	19,396	19,303	19,303	19,303	19,303	19,303
Total Liab. ($B)	73.37	79.66	81.39	91.72	96.18	101.56	110.89	113.20	118.45	126
Accounts Payable	2,391	2,271	2,350	2,994	3,043	3,487	3,487	3,144	3,629	4,754
LT Debt ($B)	41.10	42.38	42.50	50.38	54.44	57.00	61.26	62.74	67.14	75.2
Total Equity ($B)	41.33	40.88	39.73	41.03	41.74	43.82	44.86	46.00	47.33	47.36
LTD/E Ratio	0.99	1.04	1.07	1.23	1.30	1.30	1.31	1.31	1.36	1.52

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.3%	1.6%	2.3%	1.7%	2.3%	1.9%	2.5%	0.9%	2.4%	1.5%
Return on Equity	6.5%	4.6%	7.0%	5.3%	7.4%	6.2%	8.5%	3.0%	8.4%	5.4%
ROIC	3.2%	2.3%	3.4%	2.5%	3.3%	2.7%	3.6%	1.2%	3.4%	2.1%
Shares Out.	706.5	707.6	688.4	699.6	700.1	727.0	733.3	768.7	769.0	770.0
Revenue/Share	32.23	31.84	32.23	32.91	33.66	34.63	34.40	32.34	32.64	37.36
FCF/Share	1.21	1.70	(0.10)	(1.50)	(2.04)	(3.11)	(4.00)	(1.42)	(1.85)	(7.06)

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