



Duke Energy Corporation (DUK)

Updated February 23rd, 2024 by Samuel Smith

Key Metrics

Current Price:	\$92.7	5 Year CAGR Estimate:	8.1%	Market Cap:	\$71.0 B
Fair Value Price:	\$89.4	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	5/16/23 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	6/18/23 ²
Dividend Yield:	4.4%	5 Year Price Target	\$114	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 \$71 billion.

On February 8th, 2024, Duke Energy reported its financial results for the fourth quarter of 2023. Duke Energy demonstrated steady year-end results in Q4 2023. Adjusted earnings per share (EPS) came in at \$1.61, meeting analyst expectations. The regulated utility business provided earnings stability, while milder year-over-year weather had a minor negative impact on results. The company continued implementing strategic investments aligned with its clean energy transition focus. During the quarter, Duke Energy reaffirmed its commitment to reducing carbon emissions through ambitious long-term targets. This dedication to clean energy and grid modernization positions the company favorably within the broader evolving energy landscape. Lynn Good, Chair, President, and CEO of Duke Energy, addressed the company's strong full-year results and progress made toward executing its growth initiatives. Challenges facing some commercial and industrial customers prompted concerns about future demand. Good underscored the necessity to balance grid upgrades, reliability, and customer affordability throughout the company's energy transition, ensuring stable service.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.55	\$4.54	\$4.69	\$4.57	\$4.72	\$5.06	\$5.12	\$5.24	\$5.27	\$5.56	\$5.96	\$7.61
DPS	\$3.15	\$3.24	\$3.36	\$3.49	\$3.60	\$3.71	\$3.82	\$3.90	\$4.02	\$4.10	\$4.10	\$4.93
Shares³	707.6	688.4	699.6	700.1	727	733.3	768.7	769.4	770.1	771	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 are certainly not assured. However, state regulators have been amicable to rate increase requests from Duke and should

¹ Estimated

² Estimated

³ Share count in millions

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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 771 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.4	17.9	18.2	21.3	19.9	18.6	19.1	19.4	18.5	15.4	15.6	15.0
Avg. Yld.	4.0%	4.0%	3.9%	3.6%	3.8%	3.9%	3.9%	3.8%	4.1%	4.7%	4.4%	4.3%

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 15.6 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

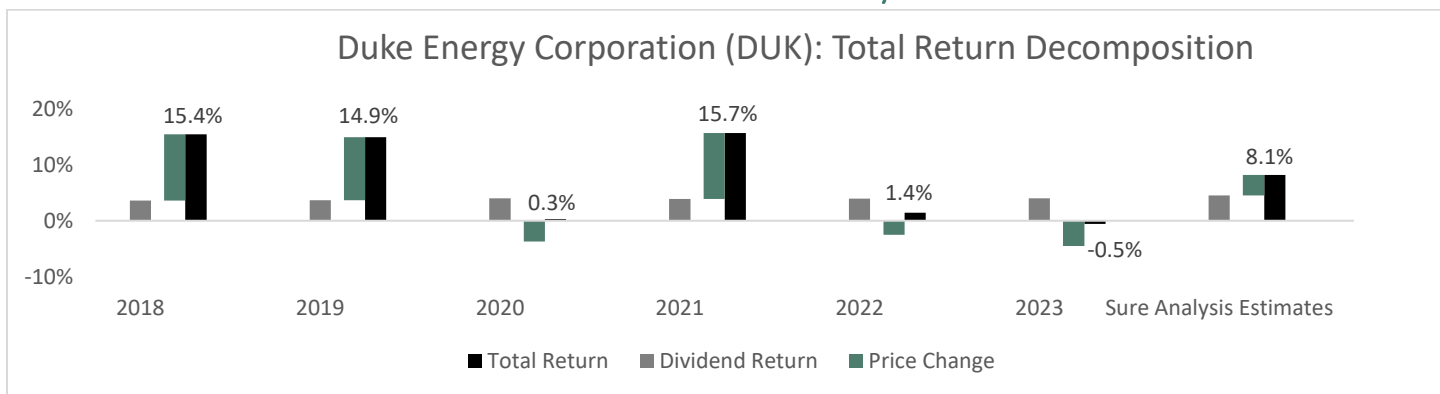
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	69%	71%	72%	76%	76%	73%	75%	74%	76%	74%	69%	65%

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 8.1% annualized total returns over the next half decade from its 4.4% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	22,509	22,371	22,743	23,565	24,521	25,079	23,366	24,621	28,768	29,060
Gross Profit	9,086	9,336	9,629	10,639	10,530	11,560	11,353	11,958	12,976	13,756
Gross Margin	40.4%	41.7%	42.3%	45.1%	42.9%	46.1%	48.6%	48.6%	45.1%	47.3%
D&A Exp.	3,507	3,613	3,880	4,046	4,696	5,176	5,486	5,663	5,843	6,084
Operating Profit	4,913	5,154	5,193	5,879	5,176	5,705	5,538	5,841	6,424	7,103
Op. Margin	21.8%	23.0%	22.8%	24.9%	21.1%	22.7%	23.7%	23.7%	22.3%	24.4%
Net Profit	1,883	2,816	2,152	3,059	2,666	3,748	1,377	3,908	2,550	2,841
Net Margin	8.4%	12.6%	9.5%	13.0%	10.9%	14.9%	5.9%	15.9%	8.9%	9.8%
Free Cash Flow	1,202	(66)	(1,038)	(1,428)	(2,203)	(2,913)	(1,051)	(1,425)	(5,440)	(2,726)
Income Tax	1,225	1,256	1,156	1,196	448	519	(169)	268	300	438

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	121	121	133	138	145	159	162	170	178	177
Cash & Equivalents	2,036	383	392	358	442	311	259	341	409	253
Acc. Receivable	2,764	2,263	2,644	2,774	3,134	3,060	3,153	3,522	4,415	4,131
Inventories	3,459	3,746	3,522	3,250	3,084	3,232	3,167	3,111	3,584	4,292
Goodwill & Int.	16,321	16,072	19,425	19,396	19,303	19,303	19,303	19,303	19,303	19,303
Total Liab. (\$B)	80	81	92	96	102	111	113	118	126	127
Accounts Payable	2,271	2,350	2,994	3,043	3,487	3,487	3,144	3,531	4,754	4,228
LT Debt (\$B)	42	43	50	54	57	61	63	66	74	80
Total Equity (\$B)	41	40	41	42	44	45	46	47	47	47
LTD/E Ratio	1.04	1.07	1.23	1.30	1.30	1.31	1.31	1.34	1.49	1.62

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.6%	2.3%	1.7%	2.3%	1.9%	2.5%	0.9%	2.4%	1.5%	1.6%
Return on Equity	4.6%	7.0%	5.3%	7.4%	6.2%	8.2%	2.8%	7.8%	5.0%	5.6%
ROIC	2.3%	3.4%	2.5%	3.3%	2.7%	3.6%	1.2%	3.4%	2.1%	2.2%
Shares Out.	707.6	688.4	699.6	700.1	727	733.3	768.7	769.4	770.1	771
Revenue/Share	31.84	32.23	32.91	33.66	34.63	34.40	31.66	32.02	37.36	37.69
FCF/Share	1.70	(0.10)	(1.50)	(2.04)	(3.11)	(4.00)	(1.42)	(1.85)	(7.06)	(3.54)

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

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