# Duke Energy Corporation (DUK)

*Updated May 11th, 2024 by Samuel Smith*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $103 | **5 Year CAGR Estimate:** | 5.9% | **Market Cap:** | $79.5 B |
| **Fair Value Price:** | $89.4 | **5 Year Growth Estimate:** | 5.0% | **Ex-Dividend Date:** | 5/16/24 |
| **% Fair Value:** | 115% | **5 Year Valuation Multiple Estimate:** | -2.8% | **Dividend Payment Date:** | 6/17/23 |
| **Dividend Yield:** | 4.0% | **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 $79.5 billion.

Duke exceeded expectations for its Q1 adjusted earnings and revenues, buoyed by heightened residential and commercial customer demand within its service territory. The company reported an adjusted profit of $1.44 per share, surpassing estimates of $1.38 per share, attributed to improved weather conditions and favorable rate case impacts. Duke reaffirmed its full-year adjusted EPS guidance at $5.85 to $6.10, aligning with analyst projections of $5.97 per share. Duke noted a 2.4% growth in its customer base in the Carolinas and Florida compared to the previous year, with a 1% increase in overall commercial and industrial load, largely driven by data center businesses. CEO Lynn Good expressed confidence in the company's trajectory toward sustainable value and outlined a strategy for 5%-7% earnings growth over the next five years. In response to the surging energy demand from data centers, Duke has devised a new billing method, incorporating take-or-pay clauses and upfront infrastructure buildout payments to mitigate volatility. CFO Brian Savoy detailed the implementation of "minimum take" clauses, ensuring payment for a specified amount of power regardless of consumption, and exploring agreements that involve upfront contributions for new power infrastructure for data centers.

## 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*** |
| **Shares[1]** | 707.6 | 688.4 | 699.6 | 700.1 | 727 | 733.3 | 768.7 | 769.4 | 770.1 | 771 | ***772*** | ***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 from the high base for 2024. 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 continue to be moving forward. One offsetting factor in earnings-per-share growth is that Duke likes to issue common

[1] Share count in millions

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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 | ***17.3*** | ***15.0*** |
| Avg. Yld. | 4.0% | 4.0% | 3.9% | 3.6% | 3.8% | 3.9% | 3.9% | 3.8% | 4.1% | 4.7% | ***4.0%*** | ***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 17.3 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

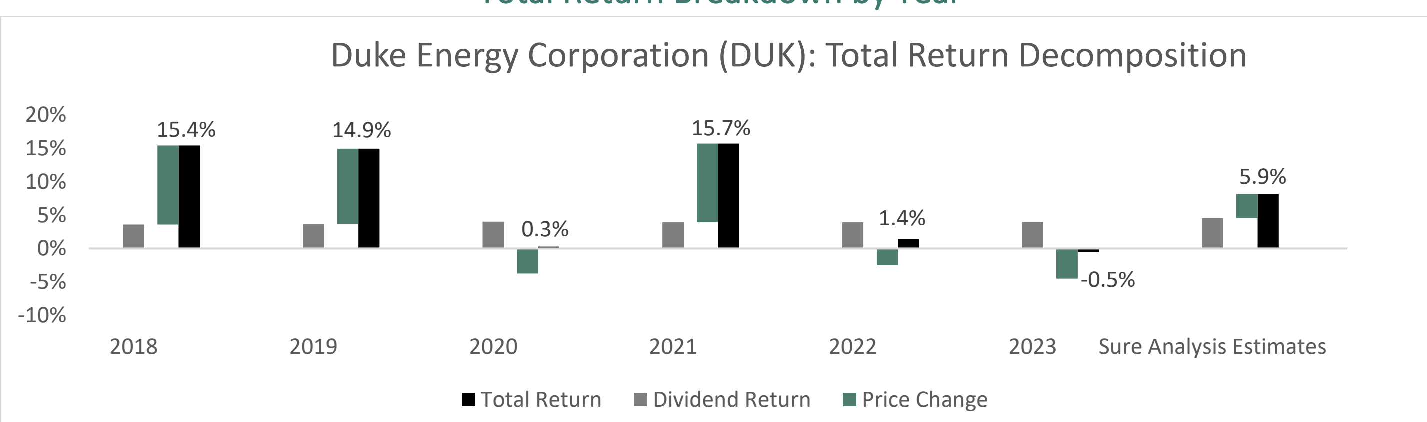
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 69% | 71% | 72% | 76% | 76% | 73% | 75% | 74% | 76% | 74% | ***69%*** | ***65%*** |

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

## Final Thoughts & Recommendation

We expect Duke to generate 5.9% annualized total returns over the next half decade from its 4.0% 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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.*