Duke Energy Corporation (DUK)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	$113	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$87.5 B
Fair Value Price:	$89.4	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	11/15/24
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	12/16/24
Dividend Yield:	3.7%	**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 $87.5 billion.

Duke Energy (DUK) reported third-quarter 2024 earnings, with reported EPS of $1.60 and adjusted EPS of $1.62, slightly down from the adjusted EPS of $1.94 for the same quarter last year. The results reflect the impact of higher tax rates, storm-related costs, rising interest expenses, and increased depreciation due to growth in assets. Despite these pressures, the company benefited from rate increases and continued growth in demand.

The Electric Utilities and Infrastructure segment reported income of $1,451 million, up slightly from $1,447 million in Q3 2023. On an adjusted basis, segment income was $1,464 million, with decreased performance attributed to higher operating expenses and depreciation, partially balanced by rate increases and higher sales volumes.

In contrast, the Gas Utilities and Infrastructure segment reported a loss of $25 million, compared to income of $15 million in the prior year. Adjusted results showed a segment loss of $22 million, mainly due to increased depreciation and interest expenses. Additionally, the "Other" segment posted a higher adjusted loss of $206 million, driven primarily by elevated interest expenses and a higher effective tax rate.

Duke Energy reaffirmed its 2024 adjusted EPS guidance range of $5.85 to $6.10, with expectations leaning toward the lower end. The company also maintains a long-term adjusted EPS growth target of 5% to 7% through 2028, based on a midpoint EPS of $5.98 for 2024.

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	***$4.18***	***$4.93***
Shares[1]	707.6	688.4	699.6	700.1	727	733.3	768.7	769.4	770.1	771	***773***	***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

[1] Share count in millions

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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 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	***19.0***	***15.0***
Avg. Yld.	4.0%	4.0%	3.9%	3.6%	3.8%	3.9%	3.9%	3.8%	4.1%	4.7%	***3.7%***	***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 19 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

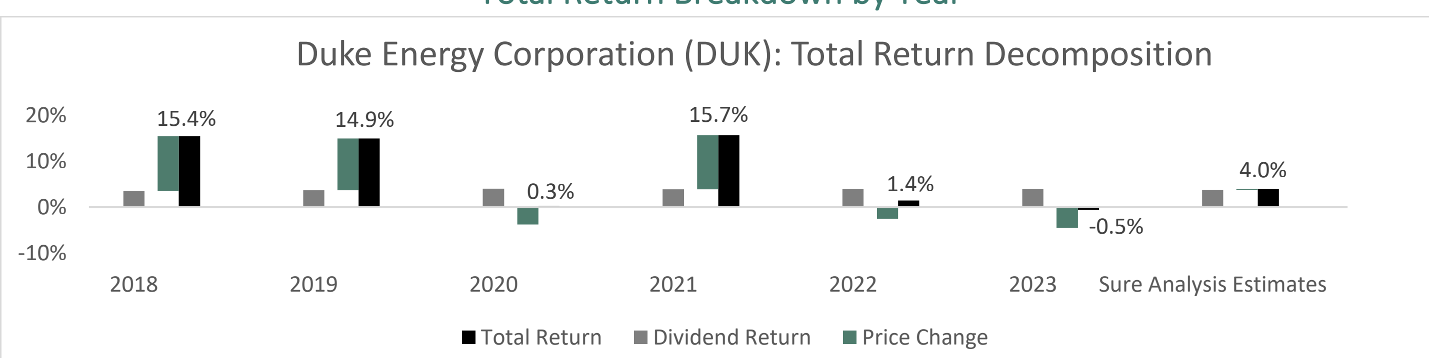
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	69%	71%	72%	76%	76%	73%	75%	74%	76%	74%	***70%***	***65%***

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 4% annualized total returns over the next half-decade from its 3.7% 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.