

## Equity Research

WELLS  
FARGO

Rating Change — November 30, 2023

## Regulated Electric Utilities

## Duke Energy Corp. (DUK)

## DUK: A Return to Form? Upgrade to Overweight

## Our Call

After a lengthy period of underwhelming EPS execution, DUK appears poised to reclaim its position as one of the premium names in the sector. Upgrade to OW. Increase PT to \$103 (vs. \$94)—a 0-5% P/E multiple premium vs. peers (3-4% discount currently).

**Overweight Thesis.** DUK has a long runway of capital investment driven by energy transition spend (the company plans to fully exit coal by '35). The planned capex, which is backed by highly constructive regulatory compacts in NC & FL (75%+ of earnings), is supportive of a 6% EPS CAGR through *at least* '28. Lastly, the implementation of constructive 3-yr MYRPs for DUK's NC utilities substantially increases our confidence in the company's ability to achieve the long-term EPS CAGR goal of 6%.

**EPS Outlook.** We maintain our 24-26E EPS of \$6.00, \$6.35 & \$6.75. We nudge up our 27E EPS to/from \$7.17/\$7.15 and introduce a 28E EPS of \$7.65. Our outlook results in a 6% CAGR off of the original midpoint of '23 EPS guidance (\$5.65). The EPS outlook is supported by an assumed 7.5% rate base CAGR ('24-'28). We assume '24-'28 capex of \$68B vs. DUK guidance of \$65B during '23-'27 (mgmt. plans to update the capex guidance in Feb. '24). We further assume \$1.5B of new equity during '24-'28.

**Energy Transition Drives CapEx.** DUK targets to fully exit coal generation by '35 (~15 GW incl. 9 GW in the Carolinas). The energy transition will create a long runway of capex opportunities and extend the 7%+ rate base CAGR through '32. Specifically, DUK forecasts '28-'32 capex of \$80-\$85B, a 25% increase vs. the '23-'27 guidance of \$65B. In the near term, DUK plans to add 6 GW of new solar, 2.7 GW of battery storage and \$5.8 GW of natural gas generation (H2 capable) in the Carolinas by '32.

**Constructive NC Regulation.** In '22, NC passed clean energy legislation (HB 951), which, amongst other items, allowed for performance-based MYRPs. In '23, the NCUC approved a 3-yr MYRP for DEP premised on an allowed ROE of 9.8% and an equity ratio of 53% (up from the prior levels of 9.6% & 52%). Under the framework, DEP is able to retain 100% of earnings up to a 10.3% ROE. In addition, the MYRP provides for residential decoupling. We expect the final DEC order (Q4'23) will mirror the DEP order.

**Balance Sheet Comments.** DUK's financial profile is a small fly in the ointment as the targeted FFO/Debt ratio of 14% is below that of the premium names in the sector (15%+). Mgmt. expects the ratio will be in a range of 13-14% exiting '23. In the near term, we fully expect DUK will help finance likely higher capex with new equity and the regulatory treatment of the nuclear PTC flow back to customers in NC (4-yr amortization) could add up to 50 bps to the FFO/Debt ratio in the intermediate-term.

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Rating/Prior Overweight/Equal Weight

Ticker	DUK
Price Target/Prior:	\$103.00/\$94.00
Upside/(Downside) to Target	13.5%
Price (11/29/2023)	\$90.71
52 Week Range	\$83.06 - 106.43
Shares Outstanding	770,711,728
Market Cap (MM)	\$69,911
Enterprise Value (MM)	\$147,992
Average Daily Volume	2,773,829
Average Daily Value (MM)	\$252
Dividend (NTM)	\$4.02
Dividend Yield	4.4%
Net Debt (MM) - last reported	\$78,080
ROIC - Current year est.	9%
3 Yr EPS CAGR from current year (unless otherwise noted)	6%

\$	2022A	2023E	2023E	2024E	2024E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	1.29 A	1.20 A	NC	-	NC
Q2 (Jun)	1.09 A	0.91 A	NC	-	NC
Q3 (Sep)	1.78 A	1.94 A	NC	-	NC
Q4 (Dec)	1.11 A	1.55 E	NC	-	NC
FY	5.27 A	5.60 E	NC	6.00 E	NC
P/E	17.2x	16.2x		15.1x	

ROIC - Current year est.; ROIC is actually ROE Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.  
NA = Not Available, Volatility = Historical trading volatility

## Wells Fargo Express Takeaways

**Duke Energy Corp. (DUK) | Rating: Overweight | Price Target: \$103.00**

**Analyst: Neil Kalton**

### Financials

FY (Dec)	2022A	2023E	2024E
<b>\$</b>			
<b>ESTIMATES</b>			
<b>EPS</b>			
Q1	1.29 A	1.20 A	-
Q2	1.09 A	0.91 A	-
Q3	1.78 A	1.94 A	-
Q4	1.11 A	1.55 E	-
AN	5.27 A	5.60 E	6.00 E
<b>Rev. (MM)</b>	28,768.0 A	30,678.2 E	31,863.1 E
<b>EBIT (MM)</b>	6,517.0 A	7,727.1 E	8,292.5 E
<b>EBITDA (MM)</b>	11,608 A	13,078 E	13,998 E
<b>DPS</b>	3.98 A	4.06 E	4.14 E

### WELLS FARGO vs. CONSENSUS

Consensus Estimate	5.27 A	5.60 E	5.97 E
Difference from Consensus		0.1%	0.4%

### VALUATION

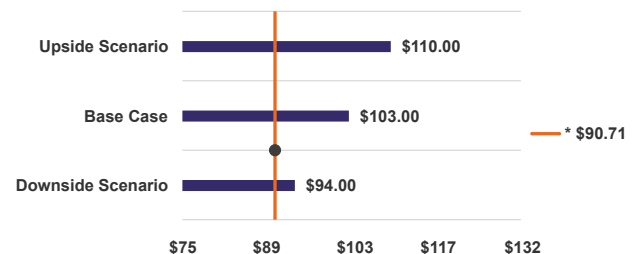
P/E	17.2x	16.2x	15.1x
EV/Revenue	5.1x	4.8x	4.6x
EV/EBIT	22.7x	19.2x	17.8x
EV/EBITDA	12.8x	11.3x	10.6x

Consensus Estimate: Consensus EPS Estimate; Source: FactSet  
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.  
NA = Not Available, NE = No Estimate

### Investment Thesis

We rate shares Overweight. After a multi-year period of restructuring/back to basics and underwhelming financial performance, DUK appears poised to deliver a 6%+ EPS CAGR. We also consider DUK's NC & FL regulatory jurisdictions (~75% of earnings) to be above-average.

### Risk vs. Reward – Upside/Downside Price Target Scenarios



\*As of 11/29/23  
Source: Wells Fargo Securities, LLC estimates and Refinitiv.

### Base Case | \$103.00

Our \$103/sh price target is based on P/E multiple and dividend discount analyses. We apply a P/E multiple of ~16X, which represents a 0-5% premium to the '24 Large/Mid Cap Regulated Electric peer group median, on our 25E EPS of \$6.35. Separately, our DDM supports a price target in excess of \$105/sh. Key assumptions include long-term earnings and dividend growth of ~3% and a discount rate of ~8%.

### Upside Scenario | \$110.00

Our upside PT of \$110/sh is premised on a P/E multiple of 17X our 25E EPS of \$6.35. The P/E multiple represents a 10% premium to the peer group median, which we think could be obtainable if investors gain greater confidence in DUK's ability to execute on the company's targeted 6% EPS CAGR goal.

### Downside Scenario | \$94.00

Our downside PT of \$94/sh is premised on a P/E multiple of 14.5-15.0X our 25E EPS of \$6.35. The P/E multiple represents a 5% discount to the peer group median. We think a discount could be warranted if DUK fails (again) to achieve 6% year-over-year growth in '24, especially considering constructive MYPs in NC.

### Upcoming Catalysts

- Final NCUC order on DEC's pending MYRP (Dec. '23)
- Updated financial disclosures including '24 EPS guidance, the 5-yr capex roll forward and EPS CAGR (Feb. '24)

### Company Description

Duke Energy has three principal business segments: (1) Electric Utilities & Infrastructure and (2) Gas Utilities & Infrastructure & (3) Other. DUK provides regulated electric service to approximately 7.7 million customers in the Carolinas, FL, OH, IN and KY and regulated natural gas service to 1.6 million customers in the Carolinas, OH, KY and TN. Other includes a 17.5% equity stake in National Methanol Company (NMC), a Saudi Arabia-based producer of methanol and methyl tertiary butyl ether.

Acronyms

MYRP - Multi-Year Rate Plan

NCUC - North Carolina Utilities Commission

PTC - Production Tax Credit

## Financials

DUK Earnings Model							
(\$ millions except per share data)	2022	2023E	2024E	2025E	2026E	2027E	2028E
<b>Revenues</b>	<b>\$28,768</b>	<b>\$30,678</b>	<b>\$31,863</b>	<b>\$32,810</b>	<b>\$33,792</b>	<b>\$34,999</b>	<b>\$36,355</b>
<b>Expenses</b>							
Purchased Power/Fuel/Power Cost Adjustments	10,058	10,634	10,738	10,830	10,928	11,028	11,129
Other O&M	5,734	6,029	6,162	6,090	5,942	5,967	5,992
Depreciation	5,086	5,347	5,695	6,067	6,467	6,889	7,348
Other	1,900	1,482	1,511	1,541	1,573	1,604	1,636
<b>Total Expenses</b>	<b>\$22,778</b>	<b>\$23,491</b>	<b>\$24,106</b>	<b>\$24,528</b>	<b>\$24,911</b>	<b>\$25,489</b>	<b>\$26,106</b>
<b>EBIT</b>	<b>\$6,517</b>	<b>\$7,727</b>	<b>\$8,292</b>	<b>\$8,832</b>	<b>\$9,476</b>	<b>\$10,145</b>	<b>\$10,919</b>
<b>EBITDA</b>	<b>\$11,603</b>	<b>\$13,074</b>	<b>\$13,988</b>	<b>\$14,898</b>	<b>\$15,943</b>	<b>\$17,034</b>	<b>\$18,267</b>
Other Income	505	540	535	550	595	635	670
Interest Expense	2,439	2,758	2,954	3,152	3,446	3,733	4,056
Income Taxes	300	457	507	551	573	594	624
Tax Rate	7%	9%	10%	10%	9%	9%	9%
<b>Earnings</b>							
Income from Continuing Operations	\$3,873	\$4,425	\$4,739	\$5,030	\$5,353	\$5,704	\$6,115
Discontinued Operations	(1,323)	0	0	0	0	0	0
Adjustment for Non-Controlling Interest	(95)	88	91	98	104	114	124
<b>Net Income</b>	<b>\$2,444</b>	<b>\$4,318</b>	<b>\$4,633</b>	<b>\$4,924</b>	<b>\$5,247</b>	<b>\$5,598</b>	<b>\$6,009</b>
Avg. Diluted Shares Outstanding	770	771	772	775	777	781	785
EPS	\$3.17	\$5.60	\$6.00	\$6.35	\$6.75	\$7.17	\$7.65
Non-Recurring	2.10	0.00	0.00	0.00	0.00	0.00	0.00
<b>Ongoing EPS</b>	<b>\$5.27</b>	<b>\$5.60</b>	<b>\$6.00</b>	<b>\$6.35</b>	<b>\$6.75</b>	<b>\$7.17</b>	<b>\$7.65</b>
Q1 EPS	1.29	1.20A					
Q2 EPS	1.09	0.91A					
Q3 EPS	1.78	1.94A					
Q4 EPS	1.11	1.55					

DUK Supplemental Information	2022	2023E	2024E	2025E	2026E	2027E	2028E
<b>Dividend Information</b>							
Dividends Per Share - YE Rate	\$4.02	\$4.10	\$4.18	\$4.33	\$4.53	\$4.73	\$4.93
Dividends Paid Per Share	3.98	4.06	4.14	4.29	4.49	4.69	4.89
Payout Ratio	75%	72%	69%	68%	67%	65%	64%
<b>Cash Flow &amp; Balance Sheet Items</b>							
Capital Expenditures (millions)	\$11,367	\$11,525	\$11,575	\$12,775	\$13,525	\$14,200	\$15,948
Book ROE	8.3%	8.6%	8.9%	9.2%	9.4%	9.7%	9.9%
FFO/Debt	13.0%	12.9%	13.7%	13.9%	14.4%	14.6%	14.1%
Debt/EBITDA	6.5x	6.0x	5.9x	5.8x	5.5x	5.4x	5.3x
Common Equity as % of Total Capitalization	39%	39%	39%	38%	39%	39%	38%

Source: Wells Fargo Securities, LLC estimates and company filings

## Investment Thesis, Valuation and Risks

### Duke Energy Corp. (DUK)

#### Investment Thesis

We rate shares Overweight. After a multi-year period of restructuring/back to basics and underwhelming financial performance, DUK appears poised to deliver a 6%+ EPS CAGR. We also consider DUK's NC & FL regulatory jurisdictions (~75% of earnings) to be above-average.

#### Target Price Valuation for DUK: \$103.00 from \$94.00

Our \$103/sh price target is based on P/E multiple and dividend discount analyses. We apply a P/E multiple of ~16X, which represents a 0-5% premium to the '24 Large/Mid Cap Regulated Electric peer group median, on our 25E EPS of \$6.35. Separately, our DDM supports a price target in excess of \$105/sh. Key assumptions include long-term earnings and dividend growth of ~3% and a discount rate of ~8%.

#### Risks to Our Price Target and Rating for DUK

Risks to our price target include unexpected adverse regulatory outcomes and inability to achieve targeted cost savings (downside risk).

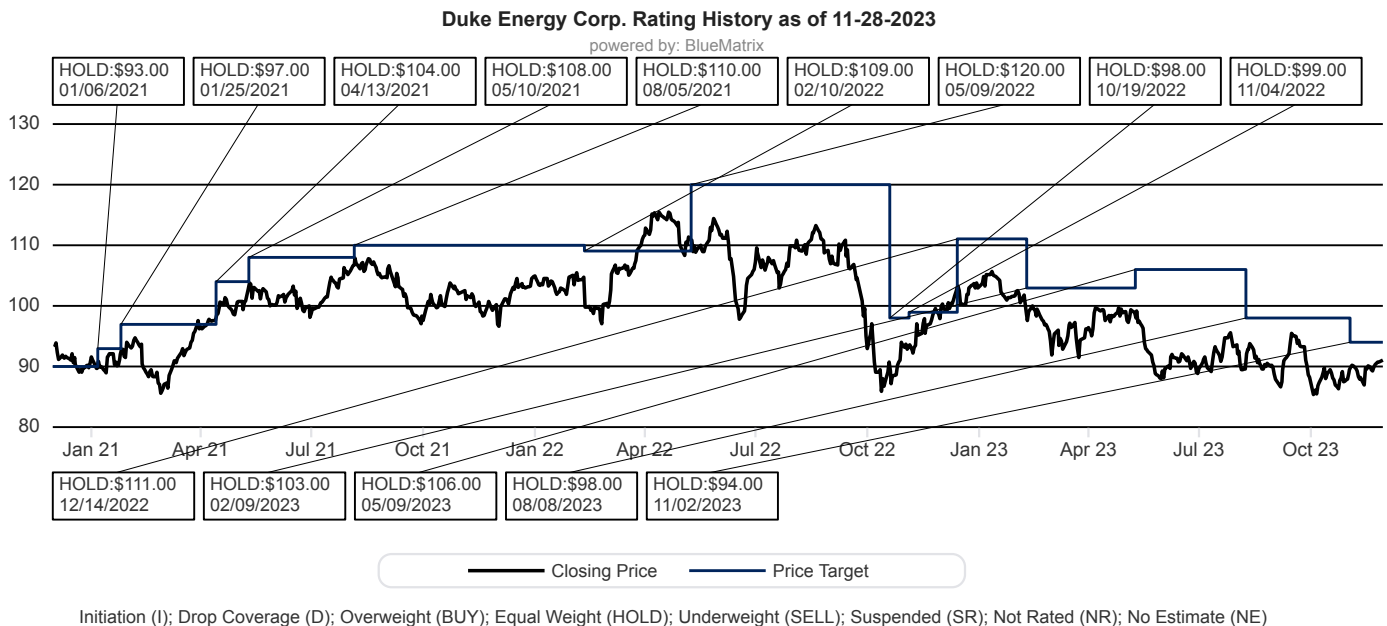
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