

Duke Energy, the largest electric power holding company in the U.S., has a market cap of approximately \$79 billion and total plant and equipment assets of more than \$174 billion. After the sale of its commercial renewables business in 2023, it has become a fully regulated utility company. It serves approximately 8.2 million electric customers in six states in the Southeast and Midwest and 1.6 million natural gas customers. Duke also has the largest regulated nuclear fleet in the U.S., with six nuclear generators in North and South Carolina. Regulated electric accounted for about 92% of total 2023 revenue. Consolidated generating capacity is about 50,000 megawatts.

Analyst's Notes

Analysis by Marie Ferguson, May 28, 2024

ARGUS RATING: BUY

- Capital improvements and new substation to support Toyota and Wolfspeed plants
- DUK reported 1Q24 net income of \$1.1 billion or \$1.44 adjusted earnings per share, up 6% from \$804 million or \$1.20 per share in 1Q23. Results reflected rate increases and performance from Dukes electric utilities.
- Duke has a balanced plan of regulatory filings and with the 4Q23 sale of its commercial renewable business, it has become a fully regulated utility company.
- Management continues to maintain 2024 guidance for 6% year-over-year growth, with long-term adjusted EPS growth of 5%-7% through 2028.
- Duke pays an annualized dividend of \$4.10 for a yield of about 4.0%, above the peer average of 3.7%. We expect the company to increase its dividend by the end of the year.

INVESTMENT THESIS

Our rating on Duke Energy Corp. (NYSE: DUK) is BUY with a target price of \$115. Duke benefits from its presence in some of the fastest-growing states such as North and South Carolina and Florida. We have a favorable view of the company's visible forward earnings stream, driven by volume increases and favorable rate case decisions. Duke also has a multiyear capital spending plan focused on fleet transition and grid modernization. The company will face high costs as it removes coal from its generation mix and invests in renewables, though its six nuclear generators will also help to control costs.

We like Duke's record of dividend growth and solid yield. We also think the utility is in a better-than-peer position to expand transmission in the region and create a growth opportunity in the expanding data center market.

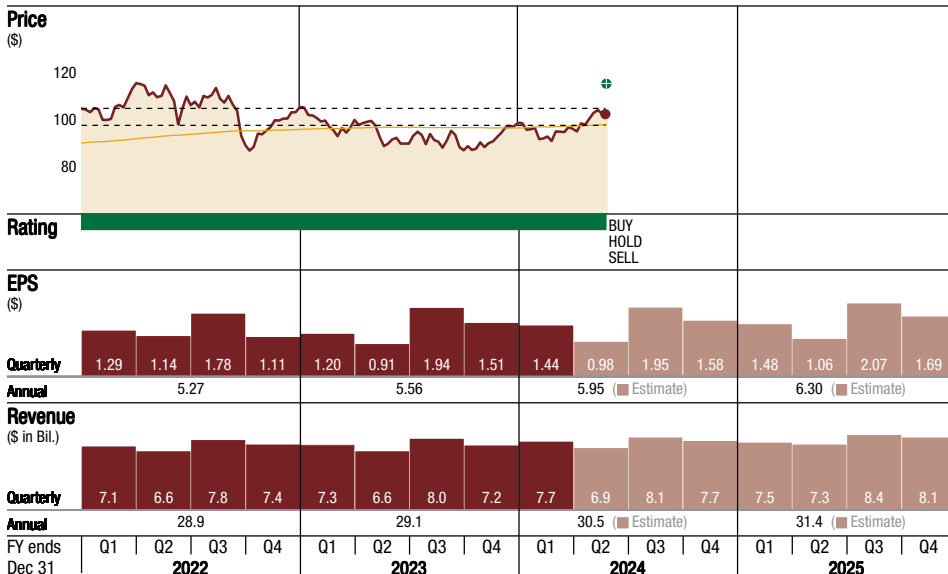
RECENT DEVELOPMENTS

DUK shares are up 13% over the past three months, compared with gains of 4% for the

Market Data

Pricing reflects previous trading week's closing price.

—200-Day Moving Average ●Target Price: \$115.00 ●52 Week High: \$104.60 ●52 Week Low: \$97.49 ●Closed at \$102.17 on 5/24



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 71% Buy, 28% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$102.17
Target Price	\$115.00
52 Week Price Range	\$83.06 to \$104.60
Shares Outstanding	771.00 Million
Dividend	\$4.10

Sector Overview

Sector	Utility
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	2.00%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	61.8%
Return on Equity	9.7%
Net Margin	10.8%
Payout Ratio	0.69
Current Ratio	0.74
Revenue	\$29.46 Billion
After-Tax Income	\$3.18 Billion

Valuation

Current FY P/E	17.17
Prior FY P/E	18.38
Price/Sales	2.67
Price/Book	1.66
Book Value/Share	\$61.64
Market Capitalization	\$78.77 Billion

Forecasted Growth

1 Year EPS Growth Forecast	7.01%
5 Year EPS Growth Forecast	6.00%
1 Year Dividend Growth Forecast	1.48%

Risk

Beta	0.69
Institutional Ownership	65.00%

Analyst's Notes ...Continued

S&P 500, 15% for the Utility ETF (IDU), and 16% for the S&P Utility Sector Index (XLU). For the past 52 weeks, DUK shares have increased 15%, compared to a 10% gain for the XLU, and a 25% gain for the S&P 500.

DUK reported 1Q24 net income of \$1.1 billion or \$1.44 adjusted earnings per share, up 36% from \$804 million or \$1.20 per share in 1Q23. The increase reflected rate case increases including a \$0.29 per share positive impact from improved electric utility performance and infrastructure. The consensus estimate was \$1.39.

First-quarter revenue growth reflected an increase in electric rates and infrastructure improvements. Consolidated revenues in 1Q24 were \$7.7 billion, up 5% from \$7.3 billion in 1Q23. Operating expenses increased 2% to \$5.7 billion from a year ago. While first-quarter O&M increased, electric fuel and purchased power costs decreased 2% to \$2.3 billion, and gas costs decreased 22% to \$232 million. Interest expense in 1Q24 was \$817 million versus \$720 million in 1Q23.

Duke recently increased its capital plan to \$73 billion through 2028. Through 2028, Duke will allocate about 50% of capital spending to fleet and grid modernization and about 26% to increase zero-carbon generation. It will also invest about \$5 billion to develop hydrogen-capable natural gas generation. In 4Q23, the company completed the sale of its 3,400 MW nonregulated utility-scale Commercial Renewables business to Brookfield Renewable. It planned to use the approximately \$1.1 billion in net

proceeds to strengthen its balance sheet. With the closing of this deal, Duke has become a fully regulated utility business.

As for recent regulatory events, Duke's Florida and Indiana utilities filed for new rates in 1Q24. New Indiana rates would be effective in 2025. The Florida base rate filing proposes efficiency investments and the addition of 14 new solar sites. The utility also stated it would reduce customer rates in Florida by filing a fuel cost adjustment. The fuel adjustment is due to falling natural gas cost estimates, which will lower residential customer bills and the reduction could go into effect as early as June or July. In January 2024, Duke Energy Carolina filed a retail-rate increase request, the first requested increase since 2018. Duke's proposal reflects a requested increase in annual revenues of about 11%, or \$239 million. An additional 4% requested increase would follow two years later. The request is tied to an acceleration of the return of excess deferred tax benefits and is subject to approval. In 3Q23, the company announced it had received approval for a retail revenue increase commencing in October 2023, with a \$126 million increase in year two and a \$138 million increase in year three.

Along with 1Q24 earnings, management reaffirmed its 2024 adjusted EPS guidance of \$5.85-\$6.10. At the midpoint, the implied growth is 6% from \$5.56 in 2023. Duke continues to project long-term adjusted EPS growth of 5%-7% through 2028.

EARNINGS & GROWTH ANALYSIS

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2019	2020	2021	2022	2023
Revenue	25,079	23,366	24,621	28,768	29,060
COGS	13,519	12,013	12,663	15,792	15,304
Gross Profit	11,560	11,353	11,958	12,976	13,756
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	5,705	5,538	5,841	6,424	7,103
Interest Expense	2,173	2,067	2,194	2,412	2,985
Pretax Income	4,097	920	3,991	4,078	4,767
Income Taxes	519	-169	268	300	438
Tax Rate (%)	13	—	7	7	9
Net Income	3,748	1,377	3,908	2,550	2,841
Diluted Shares Outstanding	729	738	769	770	771
EPS	5.06	1.72	4.94	3.17	3.54
Dividend	3.75	3.82	3.90	3.98	4.06

GROWTH RATES (%)

Revenue	2.3	-6.8	5.4	16.8	1.0
Operating Income	10.2	-2.9	5.5	10.0	10.6
Net Income	40.6	-63.3	183.8	-34.7	11.4
EPS	35.9	-73.8	251.9	1.3	12.9
Dividend	3.0	2.0	2.1	2.1	2.0
Sustainable Growth Rate	1.8	-1.8	0.0	1.6	0.3

VALUATION ANALYSIS

Price: High	\$97.37	\$103.79	\$108.38	\$116.33	\$106.43
Price: Low	\$82.46	\$62.13	\$85.56	\$83.76	\$83.06
Price/Sales: High-Low	2.8 - 2.4	3.3 - 2.0	3.4 - 2.7	3.1 - 2.2	2.8 - 2.2
P/E: High-Low	19.2 - 16.3	60.3 - 36.1	21.9 - 17.3	36.7 - 26.4	30.1 - 23.5
Price/Cash Flow: High-Low	9.9 - 8.4	8.2 - 4.9	8.9 - 7.0	14.3 - 10.3	10.2 - 8.0

Financial & Risk Analysis

FINANCIAL STRENGTH

	2021	2022	2023
Cash (\$ in Millions)	341	409	253
Working Capital (\$ in Millions)	-5,991	-5,651	-4,514
Current Ratio	0.62	0.70	0.74
LT Debt/Equity Ratio (%)	129.7	140.9	155.6
Total Debt/Equity Ratio (%)	144.2	157.5	170.6

RATIOS (%)

Gross Profit Margin	48.6	45.1	47.3
Operating Margin	23.7	22.3	24.4
Net Margin	15.4	8.5	9.4
Return On Assets	2.3	1.4	1.5
Return On Equity	8.1	5.2	5.8

RISK ANALYSIS

Cash Cycle (days)	43.8	32.0	40.5
Cash Flow/Cap Ex	0.9	0.5	0.8
Oper. Income/Int. Exp. (ratio)	2.8	2.7	2.6
Payout Ratio	138.7	100.5	80.3

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Analyst's Notes ...Continued

For 1Q24, the utility had a 6.5% increase in regulated electric revenues to \$6.7 billion, up from \$6.3 billion a year ago. Regulated natural gas revenues decreased 2% to \$866 million. Total retail electric GWh sales increased 3.2%, while wholesale GWh sales increased 8.4% compared with 1Q23. The company increased its residential customer count by 2.2% in 1Q24.

Duke Energy Carolinas posted a 2.2% increase in 1Q24 GWh electric retail sales as residential sales increased 2.4% over 1Q23. Duke Energy Progress reported a 5.7% increase in consolidated GWh retail sales and a 4% increase in wholesale GWh sales. Duke Energy Florida reported a 1.5% decrease in GWh retail sales and a 6% decrease in GWh wholesale sales compared with a year ago.

As for gas utilities, 1Q24 sales in therms increased 1% for Piedmont Distribution and 4% for Duke Energy Midwest.

Like many eastern utilities, weather significantly impacted earnings in 2023. Fortunately, 2024 is expected to see a return to normal weather temperatures. As one of the largest domestic utilities, DUK was able to implement infrastructure improvements and time rate cases to offset some of the negative impact of weather.

Duke is benefiting from an expanding customer base and favorable demographics, and looks for regulatory decisions and fuel recovery claims to boost earnings in 2024. Management expects positive rate case decisions in Ohio, Indiana, Florida, and Kentucky. The company benefits from an increased authorized ROE of 9.8% for Duke Energy Progress and a 4Q23 decision in

the Carolinas that included an authorized ROE of 10.1%. Increases in the rate base will help offset regulatory rate decreases resulting from lower natural gas and wholesale electric prices.

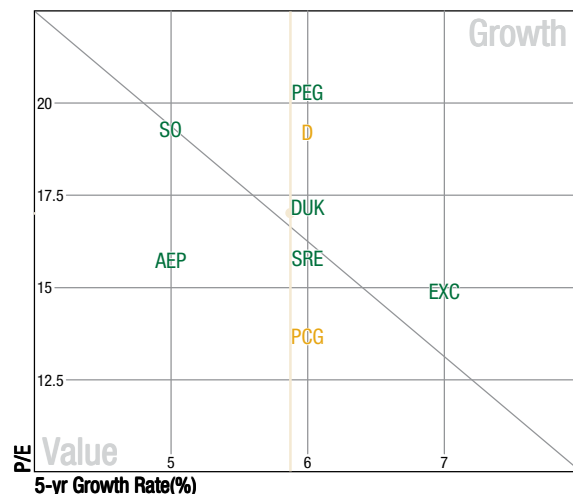
The company will have to replace coal generation, but has a balanced plan in place to also focus capital spending on infrastructure improvements. Duke is adding renewable generation capacity, which should benefit from tax credits under the Inflation Reduction Act. It expects to add 6,000 MW of solar and 2,700 MW of battery storage by 2031. The company is also planning to add infrastructure to increase its transmission capabilities with substation development in North Carolina. New manufacturing in the region includes a Toyota battery manufacturing facility (opening in 2025) and a Wolfspeed semiconductor facility (opening in 2H24). Duke also expects data center demand to grow and to account for about one-fourth of demand by 2028. We see the region's increase in industrial customers and strong ongoing residential growth to drive earnings and outpace peers.

In the near term, we expect a return to normal weather for Duke's service regions, with a hot summer projected for the Carolinas. We also look for Duke to benefit from continued infrastructure improvements and greater cost efficiencies than peers due to its use of nuclear generation. We are maintaining our 2024 adjusted EPS forecast of \$5.95, implying 7% EPS growth. Our 2025 adjusted earnings estimate of \$6.30 implies 6% growth over our 2024 estimate.

Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare DUK versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how DUK stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how DUK might fit into or modify a diversified portfolio.

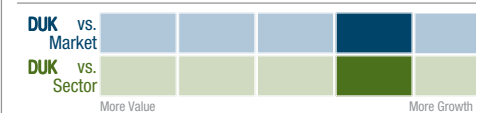


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
SO	Southern Company	85,108	5.0	19.3	16.7	6.7	BUY
DUK	Duke Energy Corp.	78,773	6.0	17.2	10.8	5.9	BUY
SRE	Sempra Energy	47,995	6.0	15.8	21.1	6.3	BUY
AEP	American Electric Power Co Inc	46,851	5.0	15.7	14.6	4.4	BUY
D	Dominion Energy Inc	44,217	6.0	19.2	11.6	21.8	HOLD
PCG	PG&E Corp.	39,385	6.0	13.7	10.0	7.4	HOLD
PEG	Public Serv Enterprise Grp Inc	37,414	6.0	20.3	17.7	8.1	BUY
EXC	Exelon Corp.	36,680	7.0	14.9	10.4	7.7	BUY
Peer Average		52,053	5.9	17.0	14.1	8.5	

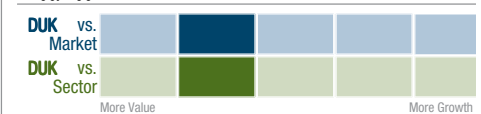
P/E



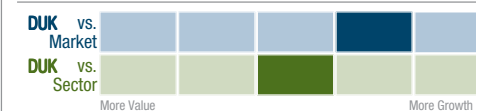
Price/Sales



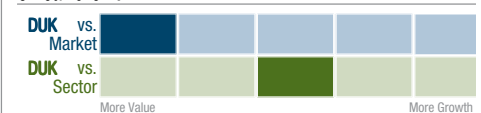
Price/Book



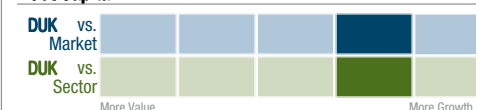
PEG



5 Year Growth



Debt/Capital



Analyst's Notes ...Continued

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Duke Energy is Medium, the midpoint on our five-point scale. The company receives average scores on our financial strength criteria of debt levels, fixed-cost coverage, cash flow generation, earnings quality, and profitability. The company's debt is investment grade.

Duke Energy has a healthy balance sheet. Cash and equivalents were \$459 million at the end of 1Q24, up from \$253 million at the end of 2023, and long-term debt was \$75 billion, up from \$72.5 billion. The debt/cap ratio was 60%, up from 59% at the end of 2023, but in line with the peer average of 60%.

Long-term regulated assets totaled \$13.6 billion at the end of the quarter, flat with the end of 2023. Long-term regulated liabilities were \$14.6 billion, up from \$14 billion at the end of 2023.

Duke Energy tends to raise its dividend each year. In July, it announced a 2% increase in its quarterly payout to \$1.025. The annualized dividend of \$4.10 yields about 4.1%, above the peer average of 3.7%. The company has paid dividends for 97 straight years, and we think the payout is secure. Our dividend estimates are \$4.12 for 2024 and \$4.23 for 2025.

MANAGEMENT & RISKS

Lynn J. Good has been the company's president and CEO since July 2013 and previously served as EVP and CFO. Brian Savoy is CFO, and is responsible for the controller's office, treasury, risk management, as well as corporate strategy and development. In late 2021, activist investor Elliot Management entered into a cooperation agreement that gave Elliott two board seats.

Key risks for electric utility stocks include commodity price fluctuations, the effect of unfavorable weather conditions on revenue, regulatory issues (especially construction cost recovery) and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company. Utility stock performance in general is sensitive to interest rates, and when rates rise, utility yields may also rise.

COMPANY DESCRIPTION

Duke Energy, the largest electric power holding company in the U.S., has a market cap of approximately \$79 billion and total plant and equipment assets of more than \$174 billion. After the sale of its commercial renewables business in 2023, it has become a fully regulated utility company. It serves approximately 8.2 million electric customers in six states in the Southeast and Midwest and 1.6 million natural gas customers. Duke also has the largest regulated nuclear fleet in the U.S., with six nuclear generators in North and South Carolina. Regulated electric accounted for about 92% of total 2023 revenue. Consolidated generating capacity is about 50,000 megawatts.

Duke is focusing expansion on its regulated service territories. It plans to own or purchase 16,000 megawatts of renewable energy capacity by 2025 and to eliminate coal usage by 2050. The company's 2022 fuel mix was 31% coal, 42% natural gas, 18% nuclear, and 9% renewables. DUK shares are a component of the S&P 500.

VALUATION

DUK shares have risen in line with peers over the past 12 weeks. The shares are currently trading near the high end of their 52-week range of \$83-\$105 and appear favorably valued based on several

standard metrics. They are trading at 17.1-times our 2024 adjusted EPS estimate, below Duke's 5-year average P/E multiple of 18.3 and close to the peer average of 16.9. Duke trades at a PEG multiple of 2.8, below the peer average of 2.9.

The dividend yield of about 4.1% is also above the peer average of 3.7%. We believe that DUK merits a premium to peers given the company's size and scale, presence in the fast-growing southeastern U.S., substantial investments in fleet transition and grid modernization, and prospects for continued regulatory increases. We also view domestically focused DUK as an attractive investment at a time of high market volatility and increased geopolitical tensions. Our target price is \$115.

On May 28 at midday, BUY-rated DUK traded at \$101.60, down \$0.57. (Marie Ferguson, 5/28/24)

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About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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