

# Duke Energy Corporation

US Satellite\*

Recommended since 24.10.2023

13.02.2024



<b>Country</b> US	<b>Market capitalization (bn)</b> USD 71.6	<b>Perf. since reco. (%)</b>
<b>Sector</b> Utilities	<b>Free float</b> 99.8%	Duke Energy Corporation 5.6
<b>Factset</b> DUK-US	<b>Closing price</b> USD 92.65	Sector 3.2
<b>ISIN</b> US26441C2044	<b>ESG Risk score*</b> 28.3 Medium risk	

## Profile

Duke Energy provides electricity and electric services to approximately 8.2 million customers (c. 90% of sales and 50 GW of installed capacity) and has natural gas operations (c. 10% of sales) serving approximately 1.6 million customers in seven states in the Southeast and Midwest United States. The company also acquires, builds, operates and owns wind, solar and battery storage projects in its Commercial Renewables segment. The group is based in North Carolina and employs c. 28,000 employees.

## Strengths/opportunities

- ⊕ Regulated revenue base, i.e. predictability
- ⊕ Solid Investment Grade balance sheet (BBB+)
- ⊕ Dividend yield and growth plan

## Weaknesses/threats

- ⊖ Sector inversely correlated to long-term rates, in the short-term
- ⊖ Leveraged balance sheet, consistent with the business model
- ⊖ Electricity generation still partly fossil-fired and partly nuclear

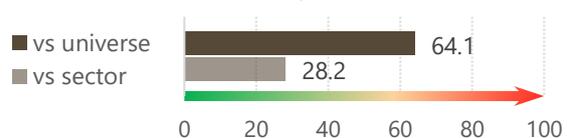
## Investment case

- ⊖ The Utilities sector is the worst performer (including Real Estate) in the US market since the start of 2023, underperforming the S&P500 by almost 40%. This is linked to the very sharp recovery in US sovereign yields, which we believe are at or approaching their peak. The business model of the main US utilities is essentially regulated, providing good visibility of incomes, linked to the generation and/or Transmission & Distribution (T&D) asset base, and therefore leading to balance sheet structures that are more indebted than average. In the short term, their stock market performance is therefore inversely proportional to the rise in interest rates - particularly long rates.
- ⊖ Duke is one of the largest US utilities in terms of market capitalization and installed generation capacity (50 GW), with similar leverage to its peers, a BBB+ (solid investment grade) credit rating, expected earnings growth of c. 20% over 2022-25e and a slightly above-average dividend yield of 4.5% for 2024e. Its investment plan (\$73 billion over 2024-2028) is fully devoted to networks (infrastructure), decarbonized production facilities and hydrogen production. Given the company's track-record in controlling its operating and maintenance costs, we can expect average annual growth in profits of 6-7%, plus the dividend yield indicated.

## Valuation

The stock is trading on a PE fwd of 15.4x, compared with a peak of c. 20x in early 2022 and a 10-year average of 17x. A level back to the end of 2011. Over the long term, the stock is a good proxy for the sector, with greater resilience in stress or end of a cycle periods.

## ESG risk vs. universe & sector (percentile)\*

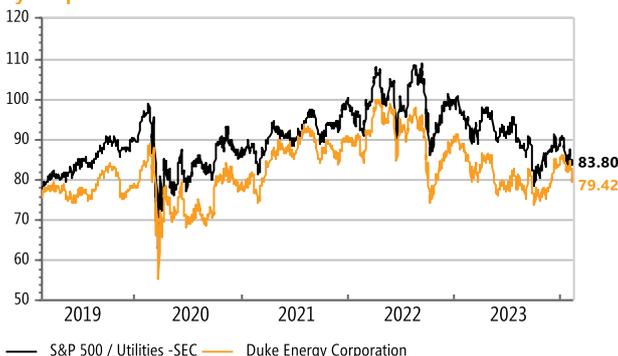


USD	12/2023	2024e	2025e
Sales revenue (mio)	29 060	29 934	30 873
Sales growth	1.0%	3.0%	3.1%
EBIT adjusted (mio)	7 103	8 136	8 654
% of sales	24.4%	27.2%	28.0%
Net income (mio)	4 296	4 616	4 920
Net income growth	10.9%	7.4%	6.6%
FCF/Sales	-4.1%	0.8%	-0.8%
Net debt/Ebitda	6.5x	5.9x	5.8x
Dividend yield	4.4%	4.5%	4.7%
PE	27.4x	15.5x	14.6x
P/BV	1.6x	1.4x	1.3x

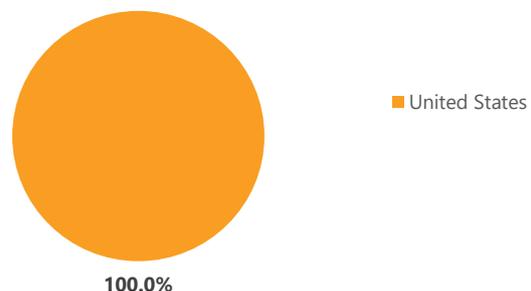
## ESG - risks and key points

- ⊖ Duke is more exposed than average to ESG risks, due to its power generation activities, which are still partly carbon-based (17% coal and 42% gas).
- ⊖ But risk governance is judged to be strong, which means that its risk score has been reduced to 'medium'.
- ⊖ The Group is actively engaged in a decarbonization plan, aiming to cut emissions by 70% by 2030 compared with 2005 and to achieve zero net emissions by 2050.

## 5-year performance vs sector



## Sales breakdown - 12/2022



\*: see overleaf

Source: Factset, Sustainabilitycs

# Glossary

## Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

## b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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