

Duke Energy Corporation

US Satellite*

Recommended since 24.10.2023

13.02.2024



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

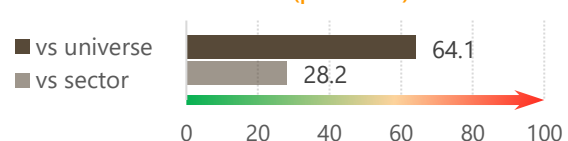
Investment case

- 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)*



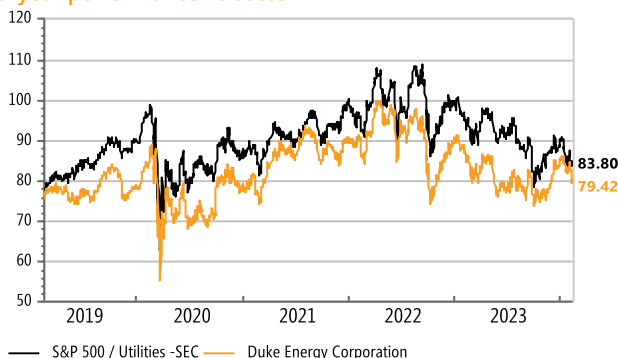
| USD | 12/2023 | 2024e | 2025e |
|---------------------|---------|--------|--------|
| Sales revenue (mio) | 29 060 | 29 934 | 30 873 |
| Sales growth | 1.0% | 3.0% | 3.1% |
| EBIT adjusted (mio) | 7 103 | 8 136 | 8 654 |
| % of sales | 24.4% | 27.2% | 28.0% |
| Net income (mio) | 4 296 | 4 616 | 4 920 |
| 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 |

Factset estimates

ESG - risks and key points

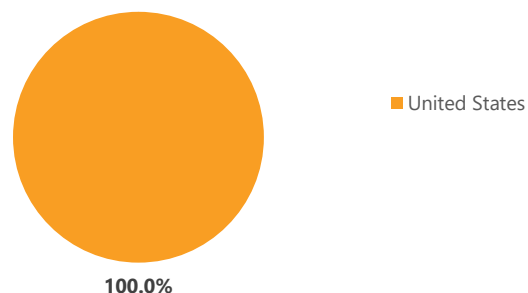
- Duke is more exposed than average to ESG risks, due to its power generation activities, which are still partly carbon-based (17% coal and 42% gas).
- But risk governance is judged to be strong, which means that its risk score has been reduced to 'medium'.
- The Group is actively engaged in a decarbonization 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



Source: FactSet

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.

Offices & Branches

Bordier & Cie Genève

Rue Rath 16
CH-1204 Genève
Case postale
CH-1211 Genève 3
T + 41 58 258 00 00
F + 41 58 258 00 40

Bordier & Cie Berne

Spitalgasse 40
Case postale
CH-3001 Berne
T + 41 58 258 07 00
F + 41 58 258 07 10

Bordier & Cie Nyon

Rue de la Porcelaine 13
CH-1260 Nyon
Case postale 1045
CH-1260 Nyon 1
T + 41 58 258 07 50
F + 41 58 258 07 70

Bordier & Cie Zurich

Talstrasse 83
CH-8001 Zürich
T + 41 58 258 05 00
F + 41 58 258 05 50

Bordier & Cie (France) S.A.

1, rue François 1er
75008 Paris – France
T + 33 1 55 04 78 78
F + 33 1 49 26 92 48

Bordier & Cie (Uruguay) S.A.

Edificio Beta 3, oficina 102
Zonamerica
91600 Montevideo
Uruguay
T + 598 2 518 2700
F + 598 2 518 2703

Bordier & Cie (Singapore) Ltd

CapitaGreen #14-00
138 Market Street
Singapore 048946
T + 65 6239 9999
F + 65 6239 9998

Bordier Bank (TCI) Ltd

Leeward Highway
Caribbean Place
Providenciales
Turks and Caicos
T + 1 649 946 45 35
F + 1 649 946 45 40

Ce document a été produit uniquement à des fins d'information générale et est exclusivement fourni par Bordier & Cie SCmA dans le cadre d'une relation contractuelle existante avec le destinataire qui le reçoit. Les vues et opinions exprimées sont celles de Bordier & Cie SCmA. Son contenu ne peut être reproduit ou redistribué par des personnes non autorisées. Toute reproduction ou diffusion non autorisée de ce document engagera la responsabilité de l'utilisateur et sera susceptible d'entraîner des poursuites. Les éléments qui y figurent sont fournis à titre informatif et ne constituent en aucun cas une recommandation en matière d'investissement ou un conseil juridique ou fiscal fournis à des tiers. Par ailleurs, il est souligné que les dispositions de notre page d'informations légales sont entièrement applicables à ce document, notamment les dispositions relatives aux limitations liées aux différentes lois et réglementations nationales. Ainsi, la Banque Bordier ne fournit aucun service d'investissement ni de conseil à des «US Persons» telles que définies par la réglementation de la Commission américaine des opérations de Bourse (SEC). En outre, l'information figurant sur notre site Internet – y compris le présent document – ne s'adresse en aucun cas à de telles personnes ou entités.