

DUKE ENERGY CORPORATION

(NYSE: DUK)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

Duke Energy Corporation engages in distribution of natural gas and energy related services. It operates through the following segments: Electric Utilities and Infrastructure, Gas Utilities and Infrastructure, and Commercial Renewables. Its Electric Utilities and Infrastructure business unit serves approximately 7.5 million retail electric customers in six states in the Southeast and Midwest, representing a population of approximately 24 million people. The company's Gas Utilities and Infrastructure business unit distributes natural gas to approximately 1.6 million customers in the Carolinas, Ohio, Kentucky and Tennessee. Its Commercial Renewables business unit operates a growing renewable energy portfolio across the United States. The company was founded in 1904 and is headquartered in Charlotte, NC.

Investment Thesis:

- **The company is currently investing heavily to match natural gas demand.** There is robust customer growth for cleaner energy. Through investing in natural gas infrastructure in the Southeast region of the United States, the company is positioned well to capture on this growing demand.
- **With a larger emphasis on clean energy, the company is positioned well within the space.** The company has a tremendous amount invested in renewable energy. With the demand for solar energy increasing, the company is building out the necessary infrastructure to capitalize on this transition.
- **Strong commitment to return capital to shareholders.** The company has had a strong track record of dividend payouts. At a 3.9% yield, the dividend increase in fiscal year 2019 represents the 93rd consecutive year of paying dividends.

Industry Drivers/Trends

Utilities

- Due to the number of wildfires, environmental concerns have been forefront for the electrical utilities industry. Companies must navigate this concern in order to continue output.
- Within the utilities industry, a large emphasis has been placed towards renewable energy and other environmentally friendly sources. Utility companies at the forefront of renewable energy production will benefit from this trend.
- The industry is relatively low risk from a macroeconomic standpoint. Utilities are heavily involved in daily life and will see consumer use even in economic cycle downturns.

Competition:

- Established contracts and relationships
- Economies of scale
- Geography diversity

Competitors:

- Ameren Corporation, NextEra Energy, Inc., Xcel Energy, Inc., FirstEnergy Corp., PG&E Corporation

Customers:

- Household users, electricity distribution companies.

Barriers to Entry:

- **Heavily Regulated** – Much of the utilities industry is regulated. New entrants must comply with industry regulations before competing for market share
- **Economies of Scale** – Large companies in this space have an operating advantage as they have been able to operate at a large volume for a prolonged period. This operating cost advantage will discourage new entrants.
- **Asset-Heavy Industry** – With the amount of infrastructure that is necessary, new entrants struggle with raising the up-front capital to make the required investments.

Officers & Directors:

Lynn Good, President, Chairman & Chief Executive Officer; **Steven Young**, EVP & Chief Financial Officer; **Dhiaa Jamil**, EVP & Chief Operating Officer; **Bonnie Titone**, Chief Information Officer

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	22,371.0	22,743.0	23,565.0	24,521.0	25,079.0
Operating Expenses	(17,397.0)	(17,541.0)	(17,940.0)	(19,836.0)	(19,370.0)
Operating Income (EBIT)	4,974.0	5,202.0	5,625.0	4,685.0	5,709.0
Profit before Tax	3,910.0	3,734.0	4,266.0	3,073.0	4,097.0
Net Profit	2,816.0	2,152.0	3,059.0	2,666.0	3,707.0
EPS (Diluted)	4.05	3.11	4.36	3.76	5.06
Dividends per Share	3.24	3.36	3.49	3.64	3.75

Balance Sheet

Cash	121,156.0	132,761.0	137,914.0	145,392.0	158,838.0
Long Term Debt	36,842.0	45,576.0	49,036.0	51,123.0	54,985.0
Total Equity	39,727.0	41,030.0	41,739.0	43,817.0	46,822.0

Statement of Cash Flow

Cash Flows from Operations	6,676.0	6,798.0	6,624.0	7,186.0	8,209.0
Cash Flows from Investing	(5,277.0)	(11,533.0)	(8,442.0)	(10,060.0)	(11,114.0)
Cash Flows from Financing	(2,578.0)	4,270.0	1,782.0	2,960.0	2,887.0

Key Ratios and Figures (%)

EBIT Margin	22.2%	22.9%	23.9%	19.1%	22.8%
Residential Customer Growth Rates	1.2%	1.3%	1.4%	1.4%	1.3%

Source: Duke Energy Corporation 2019 Annual Report

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