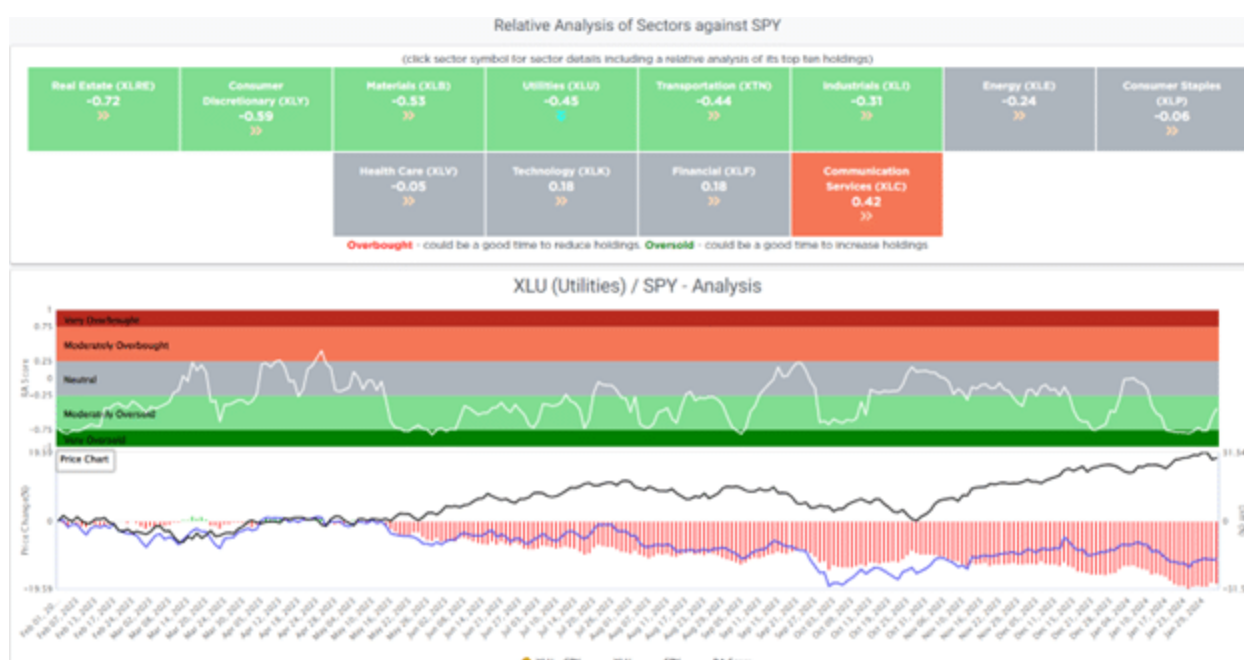


Friday Favorites- Duk

Duke Energy (DUK)

The S&P 500 may be surpassing all-time highs but it's largely being driven by the magnificent seven. That said, there are stocks in the index that aren't as far along on their path higher. DUK is still trading roughly 10% below its all-time high from April 2022. It's been negatively affected by the increase in interest rates due to the capital-intensive nature of the Utilities sector and its role as a substitute for bonds. As shown below, Utilities are currently one of the most out-of-favor sectors in the index and the performance has substantially lagged the index for nearly a year.



When bond yields eventually come down, the steadily rising EBITDA at DUK and other utilities will become more attractive. In the meantime, the stock offers a healthy dividend yield and a reasonable valuation.

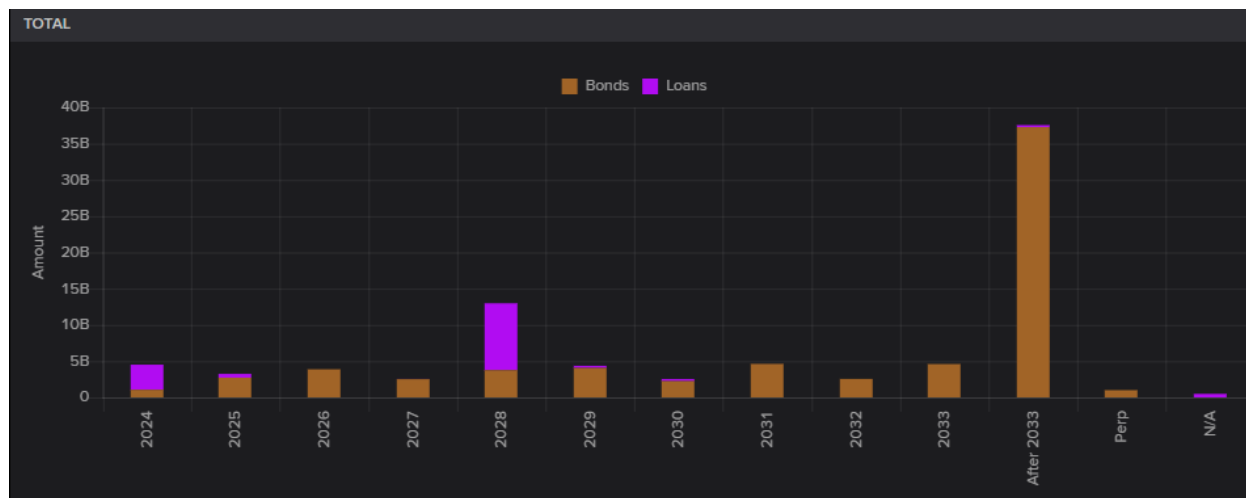
Fundamental

Since 2011, the P/E has traded between 15 and 20. It currently sits in the middle of that range at 18.5.

EBITDA has been growing at roughly 3.5% per year for the past ten years, which supports both its rising dividend and some price appreciation. Margins have been steadily increasing but at a slower rate than EBITDA.

Over the last ten years the dividend yield has steadily risen from 3.5% to 4.5%. Presuming bond yields continue to fall back to pre-pandemic norms, the 4.5% current yield should be tempting to income-oriented investors. The average correlation between the price of DUK and bond yields has been historically moderately negative, while SPY shows no correlation on average. Therefore, if bond yields continue to fall, DUK should conversely rise.

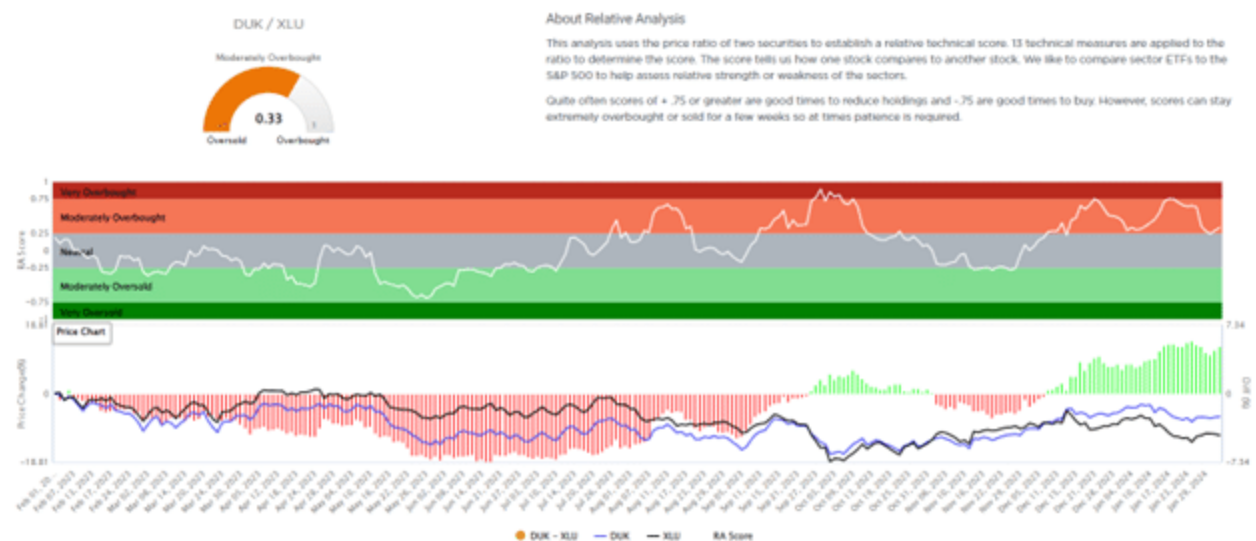
Long-term debt-to-equity is near 20-year highs. If interest rates are slow to fall, or rise from current levels, profitability may be hurt due to rising interest expense. Per Refinitiv and as shown below, DUK has roughly \$70 billion of debt outstanding but only about \$5 billion matures over the next two years. Therefore, rising interest rates are not a major threat to their profit margins for another 9+ years.



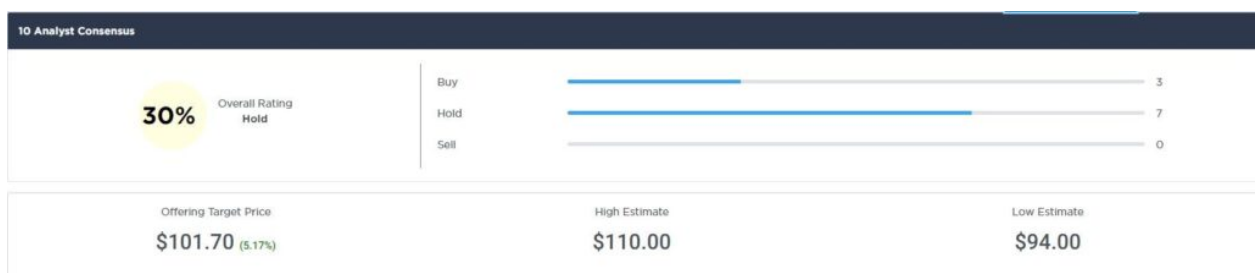
Technical

The weekly price chart below shows that DUK broke above a long-standing downtrend line towards the end of 2023. The stock still isn't overbought on weekly basis after the strong rally, however. Although it has more room to run, it may be more likely to retest the down trend line to confirm support before advancing higher. The weekly MACD also shows potential for further advance.

The second graphic shows DUK relative to the Utilities sector ETF, XLU. Notice that DUK underperformed XLU while interest rates were rising, but around the same time rates peaked in late October, DUK began outperforming XLU. The stock remains in overbought territory relative to XLU, however, when the stock retreats to neutral territory there may present a better opportunity to add exposure.



Lastly, of the 10 Wall Street analysts covering DUK, only 3 have a buy rating, and the other 7 have hold ratings. The average target price is 101.70, 5% higher than the current price. The lowest estimate is 94, about 3% below the current price.



Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.