

February 24, 2010

CURRENT PRICE: \$16.45
RATING: OUTPERFORM
PRICE TARGET: \$20.00
CURRENT YIELD: 5.8%

EPS Estimates

	DEC 09A	DEC 10E
1Q	\$0.28	\$0.31
2Q	\$0.26	\$0.27
3Q	\$0.40	\$0.39
4Q	\$0.28	\$0.29
	\$1.22	\$1.26

Trading Data

52-WEEK PRICE RANGE: **\$17.94-\$11.72**
SHARES OUTSTANDING: **1,309(M)**
MARKET CAP: **\$21,533(M)**
AVG. DAILY TRADING VOLUME: **8.57(M)**
S&P 500: **1,105**

Valuation Data

BOOK VALUE: **\$16.72**
PRICE TO BOOK: **0.98x**
DIVIDEND: **\$0.96**

DUKE ENERGY(NYSE:DUK)

Reports 4Q09 Earnings: Maintain Outperform Rating

Highlights

- 4Q09 earnings of \$0.28/share vs \$0.27/share
- FY09 earnings of \$1.22/share vs \$1.21/share
- Attractive dividend yield of 5.8%
- Trading below book/value per share
- \$20/share price target

Investment Thesis

Wall Street is debating when the US economy will emerge from the current recession. While we find difficulty in predicting its end, we believe investors should consider investing in sectors where revenue streams are fairly predictable, with attractive dividend yields, low valuations, and earnings growth potential when the US economy emerges from the recession. One attractive sector is the utility group and one company in this area we like is Duke Energy (DUK-\$16.45). This utility pays an attractive 5.8% dividend yield, potential dividend growth, trades below book value/share, and offers earnings growth prospects with a recovery in the US economy. Given these factors we are initiating coverage of DUK with an OUTPERFORM rating and a \$20/share price target.

Company Summary

Duke Energy, headquartered in Charlotte NC, is one of the largest energy providers in the US. The company is comprised of three business units; US Franchised Electric and Gas (USFE&G), Commercial Power, and Duke Energy International (DEI). USFE&G contains the company's regulated generation and the electric/gas distribution and transmission systems. Serving approximately 4 million electric customers in NC, SC, IN, OH, and KY USFE&G operates 150,900 miles of electric distribution lines and a 20,900-mile transmission system. USFE&G owns approximately 27,000 megawatts (MW) of electrical generating capacity with its plants fueled by coal, oil, natural gas, hydroelectric, and nuclear. The regulated gas business provides natural gas to 500,000 customers in OH and KY. Commercial Power owns/operates non-regulated power plants, with 8,000 MW capacity, located mainly in the Midwest.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest please refer to the last page of this report.



EQUITY RESEARCH

Duke Energy Generation Services, part of Commercial Power, operates/owns various generating assets including wind assets serving large use industrial, municipal, and utility customers. DEI manages/operates power generation facilities in Latin America and has equity investments in Greece and Saudi Arabia. Overall, DUK's domestic regulated electrical generation is fueled by coal (59%), nuclear (39%), hydro/wind (2%), and natural gas/oil (>1%). 2009 revenues for DUK totaled \$12.7 billion with the majority coming from USFE&G (74.1%), followed by Commercial Power (16.6%), DEI (9.1%), and Other (>1%).

Business Overview

DUK provides and supplies energy to over 4 million customers in the US. The company's regulated businesses, USFE&G, provides power/natural gas to customers in NC, SC, KY, IN, and OH with a service territory exceeding 47,000 square miles. USFE&G serves 4 million customers with electricity and natural gas to 500,000 customers in OH and KY. The Commercial Power (CP) unit is one of DUK's unregulated businesses with approximately 7,550 net MW power generation capability, when excluding wind generation assets. Electricity from these generating facilities are sold into the wholesale electric markets, with the majority of this segment's results coming from sales to retail customers in OH. DUK recently filed plans to separate the merchant generation plants from its Duke Energy of Ohio subsidiary for the purpose of increasing financial flexibility surrounding these assets. Currently CP has 735 MW of wind production in service and a potential developmental pipeline of an additional 5,000 MW. DEI has approximately 4000 MW of generating capacity located primarily in Latin America. Roughly 75% of DEI's electrical generation comes from hydroelectric with 90% of output for 2010 under contract.

Recent Earnings

DUK reported 4Q09 adjusted diluted earnings of \$0.28/share vs \$0.27/share during 4Q08. On a quarter-to-quarter basis, USFE&G reported segment EBIT of \$548 million versus \$532 million due to a higher allowances for funds used during construction produced by the company's ongoing building program and a rise in wholesale electric sales. These were partially offset a decline in weather-adjusted sales from industrial customers. CP produced adjusted segment EBIT of \$100 million from continuing operations, compared to a \$101 million, resulting from favorable results from Midwest gas assets, and non-native margin increases mainly from the result of higher coal sales. These results were partially offset by lower volumes from retail sales because of the recession and competition in Ohio. The competition in Ohio was partially offset by DUK's competitive retail subsidiary acquiring new customers. DEI reported adjusted segment EBIT from continuing operations of \$122 million versus \$104 million during 4Q08. Favorable average foreign exchange rates and increased profits from the National Methanol subsidiary. However, favorable contract prices in Brazil helped to offset declines in DEI's EBIT. DUK saw improvements in costs as net adjusted expenses from continuing operations declined to \$56 million from \$98 million. This improvement came from favorable governance expenses, and favorable results from captive insurance during 2009. Interest expense, when comparing the two quarters, rose slightly to \$191 million from \$189 million, due to higher debt balances offset by lower average interest rates on floating debt and commercial paper outstanding. DUK's full year 2009 earnings were \$1.22/share vs \$1.21/share during 2008. The increase in year-over-year earnings were accomplished despite industrial sales volumes declining approximately 14%, on a weather-normalized basis, as DUK exceeded the target of reducing operations/maintenance by \$150 million during 2009 and exceeding 2008's operational performance by its generating plants. On 1/25/10 DUK announced it was buying the



EQUITY RESEARCH

14-megawatt Blue Wing Solar Project under development in San Antonio, TX from Juwi Solar Inc. based in Boulder, CO.

Our Thoughts

Given recent earnings results, a 5.8% dividend yield, and the potential of an improving US economy in 2H10 or 2011, we are maintaining our OUTPERFORM rating on DUK. 4Q09 and 2009 earnings results shows management's efforts to reduce operating costs, by \$150 million, paid off as DUK showed improved profitability despite the US recession. Should the economy improve, as evidenced by rising industrial electric sales, DUK's cost cutting efforts could set the stage for an acceleration in earning growth in 2010 or 2011.

Base revenues should improve going forward following the states of NC & SC recent rulings on rate increases for DUK's regulated service territories. South Carolina approved a \$74.1 million rate increase effective 2/1/10 and North Carolina gave its approval to a \$315 million increase which will be phased in over two years. Colder than normal weather during 1Q10 and a potential increase in industrial electric sales during 2H10 could raise revenues and produce higher cash flow. The Board of Directors recently increased the annual dividend to \$0.96/share from \$0.92/share. Potentially, improved cash flow in the future could allow management to increase the annual dividend going forward during 2010 and 2011. Under this scenario, we are initiating our 2010 DUK earnings estimate of \$1.26/share.

DUK appears attractively priced paying a 5.8% dividend yield and trading below its book value of \$16.72/share, or 0.98x book value, while many of its utility peers trade on average at 1.35x book value. Potentially, improved 2010 earnings, and its high dividend yield, could increase investor demand and award a higher multiple to DUK's stock, especially if the US economy appears to be moving out of its recessionary state. Additionally, given DUK's low valuation, and mix of generating assets, we believe DUK is a merger/consolidation candidate should credit markets improve in the US. These shares are rated OUTPERFORM and are recommended for income/growth investors. Our price target is \$20/share, equating to 1.2x current book value.

Risks

There is no guarantee DUK will improve earnings/cash flow. Declining electric sales volumes may hurt the company's revenues and profits. Rising interest rates, higher fuel prices, negative results from foreign operating units, negative rate cases, tax issues, or rising operating costs could negatively impact DUK's earnings. DUK's stock may be adversely impacted by negative equity/credit markets, terrorist attacks, and failure to comply with Sarbanes Oxley guidelines.



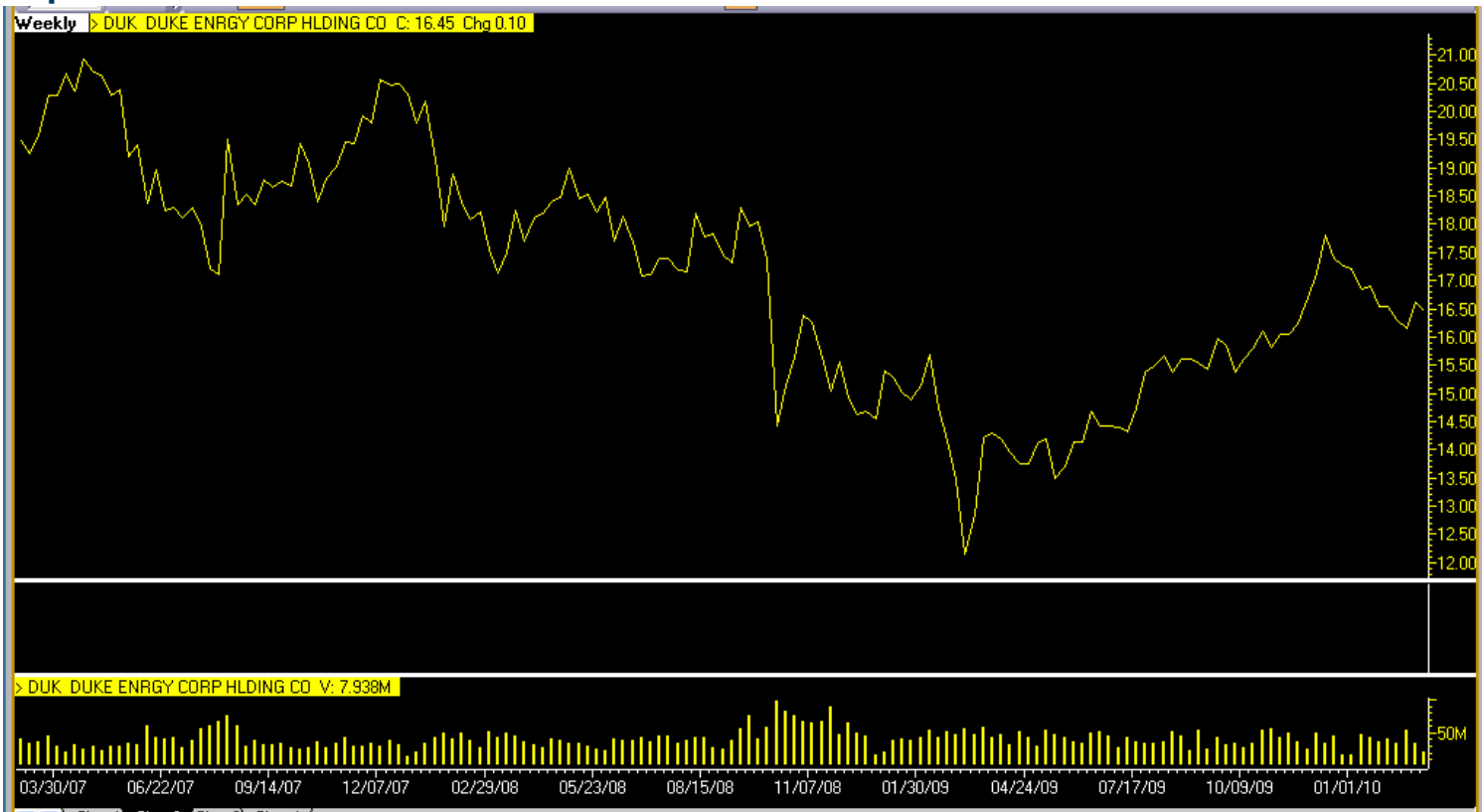
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MANAGEMENT, INC.

EQUITY RESEARCH

Duke Energy Corp.
Adjusted to Reported Earnings Reconciliation
(Dollars in millions, except per share amounts)

	1Q09	2Q09	3Q09	4Q09	2009	1Q10e	2Q10e	3Q10e	4Q10e	2010e
Segment Earnings Before Interest/taxes From Continuing Operations										
US Franchised Electric & Gas	\$557	\$500	\$716	\$548	\$2,321	\$605	\$526	\$724	\$558	\$2,413
Commercial Power	103	115	182	100	500	112	117	148	134	511
International Energy	93	94	100	122	409	101	96	115	103	415
Total reportable segment EBIT	753	709	998	770	3,230	818	739	987	795	3,339
Other	-50	-37	-57	-56	-200	-52	-48	-54	-51	-205
Total reportable segment EBIT & other EBIT	\$703	\$672	\$941	\$714	\$3,030	\$766	\$691	\$933	\$744	\$3,134
Interest Expense	-184	-180	-190	-191	-745	-192	-192	-194	-190	-768
Interest Income & Other	35	28	24	23	110	25	27	24	21	97
Income Taxes from Continuing Operations	-191	-190	-260	-177	-818	-193	-173	-252	-196	-814
Discontinued Operations, net of taxes										
Less: Net Income Attributable to Non-Controlling Interests	-5	6	-3	2			-2	-1		-3
Net Income (Loss)	\$358	\$334	\$518	\$367	\$1,577	\$406	\$351	\$510	\$379	\$1,646
Earnings Per Share (fully diluted)	\$0.28	\$0.26	\$0.40	\$0.28	\$1.22	\$0.31	\$0.27	\$0.39	\$0.29	\$1.26

Important Disclosures



9/23/09 \$15.72 Initiate OUTPERFORM

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Capitol Securities and employees of Capitol Securities may own shares of Duke Energy.

Stock ratings used in this report are defined as follows:

- (1) Outperform – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Neutral – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Underperform – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 75%, (2) 25%, (3) 0%

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For regulatory purposes, our ratings of Outperform, Neutral and Underperform most closely correspond to Buy, Hold and Sell, respectively.

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