

May 21, 2010

CURRENT PRICE: \$16.00
RATING: OUTPERFORM
PRICE TARGET: \$20.00
CURRENT YIELD: 6%

EPS Estimates

	DEC 09A	DEC 10E
1Q	\$0.28	\$0.36
2Q	\$0.26	\$0.27e
3Q	\$0.40	\$0.39e
4Q	\$0.28	\$0.29e
	\$1.22	\$1.31

Trading Data

52-WEEK PRICE RANGE: **\$17.94-\$13.31**
 SHARES OUTSTANDING: **1,311(M)**
 MARKET CAP: **\$20,976(M)**
 AVG. DAILY TRADING VOLUME: **11.9(M)**
 S&P 500: **1,105**

Valuation Data

BOOK VALUE: **\$16.80**
 PRICE TO BOOK: **0.95x**
 DIVIDEND: **\$0.96**

DUKE ENERGY(NYSE:DUK)

Reports 1Q10 Earnings: Maintain Outperform Rating

Highlights

- 1Q10 earnings of \$0.36/share vs \$0.28/share
- Improved EBIT results from three operating units
- Attractive dividend yield of 6%
- 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-\$16.00). This utility pays an attractive 6% dividend yield, potential dividend growth, trades below book value/share, and offers earnings growth prospects with a recovery in the US economy. DUK is rated OUTPERFORM rating and our price target is \$20/share.

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 1Q10 adjusted diluted earnings of \$0.36/share vs \$0.28/share during 1Q09. The improved earnings came from favorable weather patterns, an increase in weather-normalized retail sales volumes, industrial sales, and higher kilowatt pricing. On a quarter-to-quarter basis revenues grew to \$3.59 billion from \$3.31 billion and operating expenses increased to \$2.84 billion from \$2.64 billion.

USFE&G reported segment EBIT of \$744 million versus \$557 million as the improvement was due to higher kilowatt pricing, cold weather in DUK's Midwest and Carolina's service territories, increased retail sales primarily to industrial customers, and higher allowance for funds used during construction from the company's ongoing construction program. These positives offset an increase in operating expenses which rose 1.2% to \$1.998 billion.

Commercial Power's segment EBIT \$129 million from \$114 million as this unit benefitted from increased mark-to-market gains on economic hedges, favorable operation/maintenance costs due to prior-year timing of plant outages, and higher results from the Midwest gas assets. Positive results in CP were partially offset by lower retail sales in the competitive Ohio market, however, during the quarter, the competitive retail subsidiary added new customers in the state. Revenues grew 7.8% to \$579 million from \$537 million while operating expenses rose 5.1% to \$458 million from \$436 million.



EQUITY RESEARCH

DEI's segment EBIT rose to \$140 million from \$93 million due primarily to favorable pricing from the National Methanol business and favorable foreign exchange rates. Revenues increased 32% to \$336 million from \$255 million and operating expenses rose 35% to \$218 million from \$161 million. DEI's other income was \$29 million versus \$6 million.

DUK's "Other" reported 1Q10 expense from continuing operations of \$146 million compared to \$90 million during 1Q09. The increase came from severance costs associated with a voluntary employee separation program/office consolidation and a donation to the Duke Energy Foundation. This rise was partially offset by a 2009 charge related to Duke's real estate joint venture, Crescent, which filed Chapter 11 last year.

Our Thoughts

Overall, a good quarterly report from DUK with 1Q10 earnings of \$0.36/share vs \$0.28/share during 1Q09. All three of DUK's operating units experienced improved EBIT results with USFE&G's increasing 33.6% to \$744 million, CP's growing 13.2% to \$129 million, and DEI's rose 50.5% to \$140 million. On a combined basis, the improvement came from increased KWh pricing, higher revenues, mark-to-market gains, favorable operation/maintenance cost comparisons, a rise in National Methanol's results, and favorable foreign exchange rates. During the earnings conference call CEO Jim Rodgers said DUK has seen signs of economic stabilization, however the current levels of unemployment in its service territory still causes concern for the company. Mindful of this, Rodgers said DUK will manage its expenses during 2010 and focus on efficiently managing its operations. These shares appear attractive for income/growth investors given the company's high dividend yield of 6% & trading below its book value per share of \$16.80/share. Earnings growth may lead to future increases of DUK's annual dividend. We are raising our 2010 earnings estimate to \$1.31/share from \$1.26/share based on 1Q10's results. These shares are rated OUTPERFORM & our price target is \$20/share, equating to 1.2x 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.

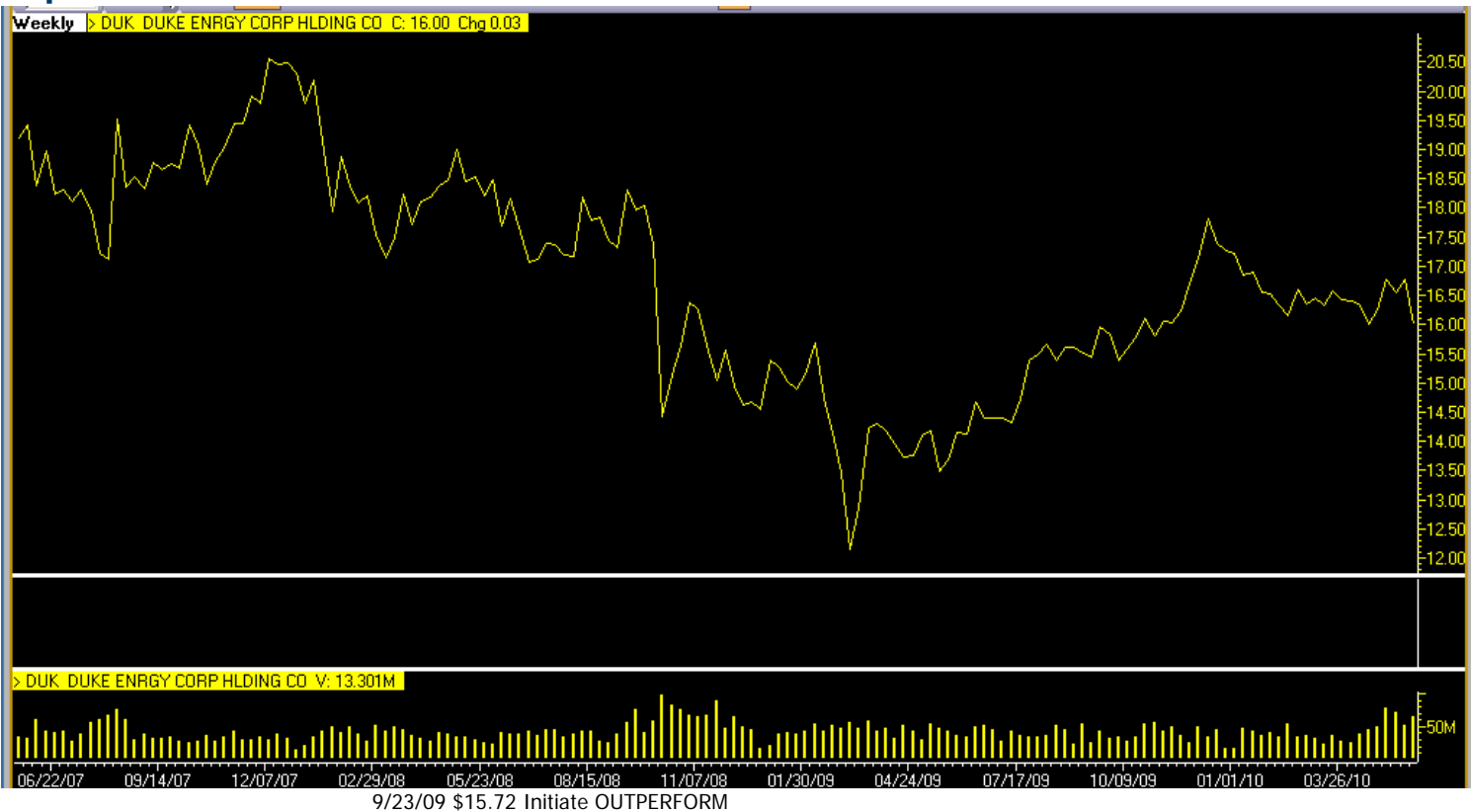


EQUITY RESEARCH

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

	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10e	3Q10e	4Q10e	2010e
Segment Earnings Before Interest/taxes From Continuing Operations										
US Franchised Electric & Gas	\$557	\$500	\$716	\$548	\$2,321	\$744	\$526	\$724	\$558	\$2,552
Commercial Power	103	115	182	100	500	100	117	148	134	499
International Energy	93	94	100	122	409	140	96	115	103	454
Total reportable segment EBIT	753	709	998	770	3,230	984	739	987	795	3,505
Other	-50	-37	-57	-56	-200	-71	-48	-54	-51	-224
Total reportable segment EBIT & other EBIT	\$703	\$672	\$941	\$714	\$3,030	\$913	\$691	\$933	\$744	\$3,281
Interest Expense	-184	-180	-190	-191	-745	-210	-192	-194	-190	-786
Interest Income & Other	35	28	24	23	110	14	27	24	21	86
Income Taxes from Continuing Operations	-191	-190	-260	-177	-818	-246	-173	-252	-196	-867
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	\$471	\$351	\$510	\$379	\$1,711
Earnings Per Share (fully diluted)	\$0.28	\$0.26	\$0.40	\$0.28	\$1.22	\$0.36	\$0.27	\$0.39	\$0.29	\$1.31

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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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