

November 10, 2009

CURRENT PRICE: \$16.18
RATING: OUTPERFORM
PRICE TARGET: \$20.00
CURRENT YIELD: 6%

EPS Estimates - Non-GAAP

	DEC 08A	DEC 09E
1Q	\$0.35A	\$0.28A
2Q	\$0.27A	\$0.26A
3Q	\$0.33A	\$0.40A
4Q	\$0.27A	\$0.25e
	\$1.21	\$1.19

Trading Data

52-WEEK PRICE RANGE: **\$18.05-\$11.72**
 SHARES OUTSTANDING: **1,303(M)**
 MARKET CAP: **\$21,083(M)**
 AVG. DAILY TRADING VOLUME: **8.4(M)**
 S&P 500: **1,093**

Valuation Data

BOOK VALUE: **\$16.69**
 PRICE TO BOOK: **0.97**
 DIVIDEND: **\$0.96**

DUKE ENERGY (NYSE:DUK)

Good Earnings Report: Maintain Outperform Rating

Highlights

- Operating earnings of \$0.40/share vs. \$0.33/share
- Rising revenue potential during 2010-2011
- 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-\$15.44). 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. 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 (CP), 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 28,000 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. The Commercial Power unit owns/operates/manages non-regulated power plants, with 8,000 MW capacity, located mainly in the Midwest. Duke Energy Generation Services, part of Commercial Power, develops/operates/owns various generating assets including wind assets serving large use industrial, municipal, and utility customers.

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

DEI manages/operates power generation facilities in South America and has equity investments in Greece and Saudi Arabia. Overall, DUK's domestic electrical generation is fueled by coal (70%), nuclear (27%), natural gas/oil (2%), and hydro/wind (<1%). 2008 revenues for DUK totaled \$13.2 billion with the majority coming from USFE&G (76.9%), followed by Commercial Power (13.8%), DEI (8.9%), 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 515,000 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 522 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 about 90% of output under contract. In DUK's "Other" category is Crescent Real Estate, a joint venture with the Morgan Stanley Real Estate Fund which manages land holdings and develops commercial, residential, and multi-family real estate projects in 10 states, located in the Southeast/Southwest US.

Recent Earnings

Duke Energy (DUK-\$15.82) reported 3Q09 earnings of \$0.08/sh vs. \$0.17/share during 3Q08. However, earnings from continuing operations were \$0.40/share vs. \$0.33/share. This occurred despite lower electricity sales due to the recession. The improvement came from DUK's DEI unit and lower operating costs, offsetting a decline in the USFE&G and Commercial Power units. DEI reported EBIT of \$100 million vs. \$77 million driven by lower commodity prices in Peru and favorable hydro results in Central America. These were partially offset by lower commodity prices at the National Methanol Company and unfavorable foreign currency exchange rates. USFE&G's EBIT declined to \$716 million from \$726 million due to the region's unfavorable weather conditions and lower weather adjusted industrial customer sales. The declines were partially offset by lower operating/maintenance costs, increased riders and Allowance for Funds Using During Construction, and lower depreciation/amortization. Commercial Power's (CP) EBIT generated a \$234 million loss compared to a \$108 million loss during 3Q08, resulting from non-cash impairment charges related to goodwill associated with non-regulated Midwest assets. Factoring these charges, CP would have shown improvement due to the prior year's mark-to-market losses on economic hedges and a 3Q08 emission allowance impairment generated by the invalidation of the Clean Air Interstate Rule. Native margins were higher during 3Q09 due to an increase in Electric Security Plan rates in the Midwest the timing of fuel/purchased power rider collections in 2008, net of milder weather and lower volumes. Midwest gas-powered plants generated increased EBIT in 2009 due to additional capacity revenues and a receivable write-off in 2008 related to Lehman Brothers. Non-native margins improved due to coal sales gains. The bottom line was also helped by net expenses from continuing operations declining to \$65 million from \$195 million. This came from a decline in costs associated with expenses associated with the Cinergy merger, its captive insurance company, and from Crescent Real Estate. Book value per share rose to \$16.69/share from \$16.51 on a sequential quarterly basis.



Our Thoughts

This stock is rated Outperform based on the company's high dividend yield of 6%, the potential of future earnings growth, and trading below its book value of \$16.51/share. 3Q09 earnings results were in line with expectations. DUK's Board of Directors recently increased its annual dividend to \$0.96/share from \$0.92/share. Management also confirmed 2009 earnings guidance of \$1.20/share during the 3Q09 earnings release. Two additional positives were recently disclosed by DUK: 1) The decline in electric sales to industrial customers appears to have stabilized, while 3Q09 sales improved from 2Q09's results, and 2) Industrial sales may improve going forward. Should this materialize investor demand for DUK shares could increase & push the shares towards our price target of \$20/share. Additionally, investors appear pleased with DUK getting \$318 million in rate increases for its NC service territory. SC is expected to rule on a \$100 million rate request for DUK's service territory in that state during 1Q10. Increasing revenues may be another positive for DUK b/c it may firm up Wall Street's belief in the company's ability to grow its future earnings. Rising future revenues, along with recent cost-cutting efforts, could produce earnings growth in 2010 or 2011. These shares are recommended for income/growth investors, given the 6% dividend yield. Our target price is \$20/share, or 1.2x book, which is below industry brethren trading between 1.4x-1.7x book.

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 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.

Steve Marascia
Director of Research
Capitol Securities Mgmt
804-612-9715
smarascia@capitolsecurities.com

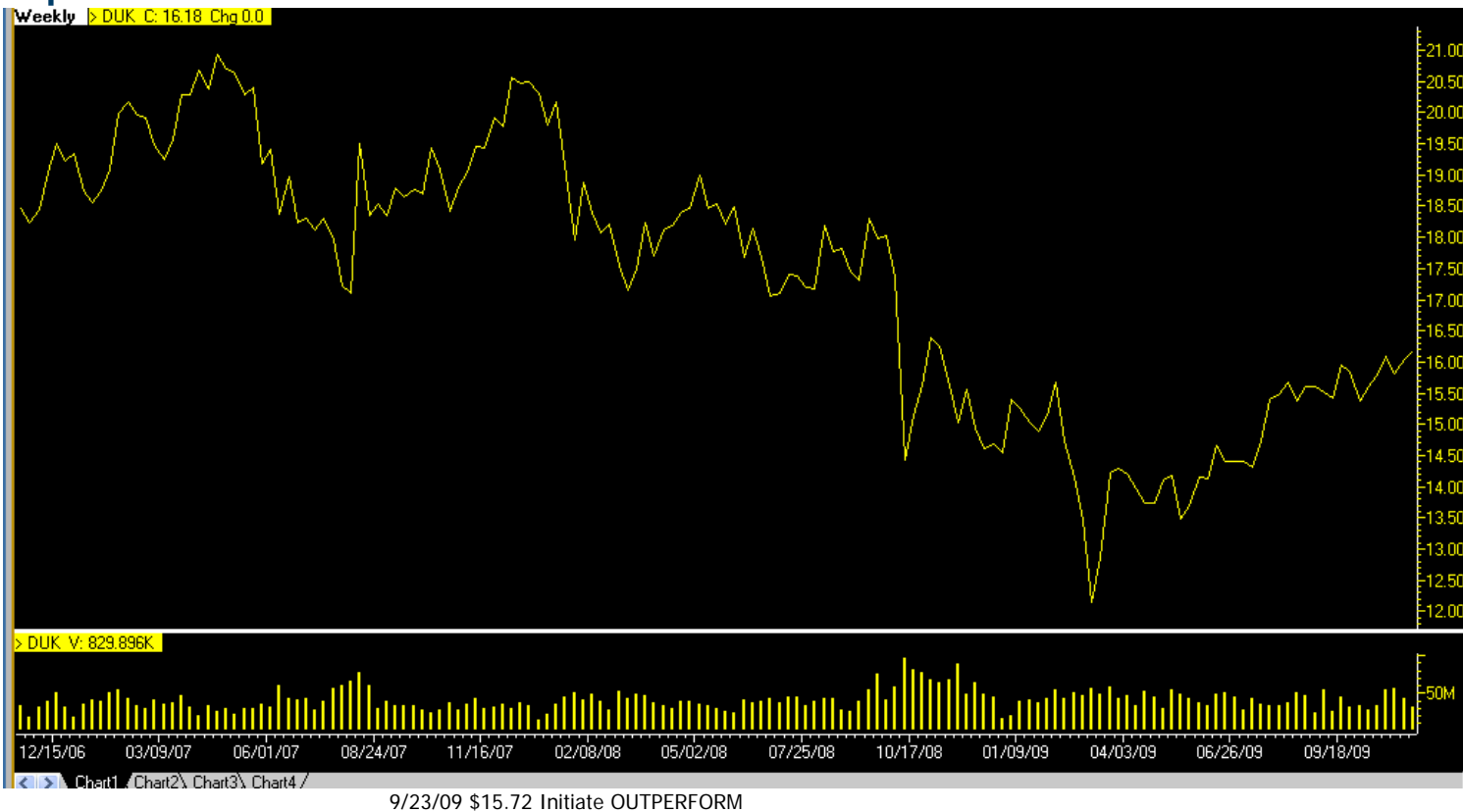


EQUITY RESEARCH

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

	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09e	2009e
Segment Earnings Before Interest/taxes From Continuing Operations										
US Franchised Electric & Gas	\$637	\$503	\$726	\$532	\$2,398	\$557	\$500	\$716	\$526	\$2,299
Commercial Power	99	128	93	101	421	103	115	182	109	509
International Energy	114	116	77	104	411	93	94	100	99	386
Total reportable segment EBIT	850	747	896	737	\$3,230	753	709	998	734	3,194
Other	-65	-77	-70	-98	-310	-50	-37	-57	-46	-190
Total reportable segment EBIT & other EBIT	\$785	\$670	\$826	\$639	\$2,920	\$703	\$672	\$941	\$688	\$3,004
Interest Expense	-182	-194	-176	-189	-741	-184	-180	-190	-194	-748
Interest Income & Other	47	32	24	27	130	35	28	24	22	109
Income Taxes from Continuing Operations Discontinued Operations, net of taxes	-209	-173	-252	-139	-773	-191	-190	-260	-190	-831
Less: Net Income Attributable to Non-Controlling Interests	1	-2		-5	-6	-5	6	-3	-4	-6
Net Income (Loss)	\$440	\$337	\$422	\$338	\$1,537	\$358	\$334	\$518	\$322	\$1,532
Earnings Per Share (fully diluted)	\$0.35	\$0.27	\$0.33	\$0.27	\$1.21	\$0.28	\$0.26	\$0.40	\$0.25	\$1.19

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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) 100%, (2) 0%, (3) 0%

Capitol Securities does not have investment banking operations.

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

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