September 5, 2014

CURRENT PRICE:	**$74.90**
RATING:	**BUY**
PRICE TARGET:	**$76**
CURRENT YIELD:	**4.3%**

EPS Estimates - Non-GAAP

	DEC 13A	DEC 14E
1Q	$1.02	$1.17A
2Q	$0.87	$1.11A
3Q	$1.46	$1.13
4Q	$1.00	$1.10
	$4.35	**$4.51**

Trading Data

52-WEEK PRICE RANGE:	**$75.13 - $64.42**
SHARES OUTSTANDING:	**707(M)**
MARKET CAP:	**$52,954(M)**
AVG. DAILY TRADING VOLUME:	**2.8(M)**
S&P 500:	**2,007**

Valuation Data

BOOK VALUE:	**$57.80**
PRICE TO BOOK:	**1.1x**
DIVIDEND:	**$3.18**

Duke Energy (NYSE: DUK)

2Q14 earnings results- maintain BUY rating

Highlights

- Adjusted diluted earnings $1.11/share vs. $0.87 /share
- All three operating units increase profitability
- Increased annual dividend 2%
- Raises 2014 earnings guidance range to $4.50-$4.65/share
- Maintain BUY rating & $76 raising price target

Investment Thesis

Wall Street believes the US economy is emerging from its recent economic malaise with GDP estimated to grow about 2%-3% over the next year or two. While we find this difficult to predict, 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 this malaise. One attractive sector is the utility group and one company in this area we like Duke Energy. This utility pays an attractive 4.3% dividend yield, has potential dividend growth, and offers earnings growth prospects with a recovery in the US economy. DUK is rated BUY and our price target is $76/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; Regulated Utilities (RU), Commercial Power (CP), and Duke Energy International (IE). USFE&G contains the company's regulated generation and the electric/gas distribution and transmission systems. Serving approximately 7.2 million electric customers in NC, SC, FL, 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 49,000 megawatts (MW) of regulated electrical generating capacity with its plants fueled by coal, oil, natural gas, hydroelectric, and nuclear. This past July DUK recently merged with Progress Energy creating one of the largest electric utilities in the US.

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

Recent Earnings

DUK reported 2Q14 adjusted diluted earnings of $1.11/share vs. $0.87/share during 2Q13. The improvement was due to improved results at its three operating units resulting from to favorable weather and favorable tax treatments. Adjusted segment income rose to $689 million from $590 million in the Regulated unit, International Energy's increased to $146 million from $87 million, and Commercial Power improved to $16 million vs. an operating loss of $3 million. The results were positively impacted by weather and favorable taxes during the just-completed quarter. Total operating revenues, on a quarter-to-quarter comparison, increased to $5.95 billion from $5.88 billion and total operating expenses decreased to $4.84 billion from $5.10 billion. Book value per share rose to $57.80/share from $56.95/share.

SEGMENT RESULTS

The Regulated Utility segment reported adjusted segment income of $689 million vs. $590 million (+$0.13/share) as the unit benefited from favorable weather and a lower effective tax rate. Positively impacting this segment's results were higher revenues from higher pricing and riders from the implantation of revised customer rates (+$0.07/share), warmer than normal temperatures in DUK's service territories (+$0.07/share), a lower effective tax rate produced by a state tax settlement favorably impacting deferred tax adjustments (+$0.05/share), a decline in operating/maintenance expenses created by a prior-year donation related to the Duke Progress Energy case settlement in 2013 and benefits from nuclear outage cost levelization, and increased wholesale net margins coming from growth in contracted amounts (+$0.02/share). Partly offsetting these positives were higher depreciation expense from additional plants in service and a decrease in amortization of removal costs (-$0.07/share), increased interest expense due to lower post-in-service debt returns on projects reflected in customer rates (-$0.03/share, and lower AFDUC equity from the completion of certain major capital projects ($0.01/share)

Segment income rose to $689 million from $353 million and operating income rose to $1.26 billion from $759 billion due to higher revenues (+7.6%) and lower operating expenses (-3.5%). Total GWh generation increased 6.5% to 59.65 GWh produced by higher sales from Duke Energy Carolinas (+3.1%), Duke Energy Progress (+4.5%), and Duke Energy Indiana (+6.5%). These more than offset decreases from Duke Energy Florida (-0.01%) and Duke Energy Ohio (-0.5%).

CP reported adjusted segment income of $16 million vs. an operating loss of $3 million. The improved results (+$0.02/share) were due to higher results from the Midwest coal/gas generation fleets (+$0.02/share) resulting from higher PJM capacity prices. Additionally, results at the renewables business rose (+$0.01/share) because of increased production from the wind/solar portfolio.

Operating income fell to a loss of $192 million vs. $50 million as revenues declined to $309 million from $557 million and expenses were slightly lower at $502 million vs. $508 million. Actual plant GWh production decreased 4.5% to 1,469 GWh as coal-fired plant production fell 26.2% to 3,087 GWh, gas-fired plant production rose 19.2% to 3,981 GWh, and renewable-plant production increased 5.2% to 1,469.

IE reported adjusted segment income of $146 million vs. $87 million, equating to an increase of $0.09/share. The improvement was due to positive results in Latin America (+$0.08/share) produced mainly by a favorable tax benefit from the reorganization of Chilean operations. Also, results at the National Methanol Company (+$0.02/share) increased due to a prior-year extended planned maintenance outage. Partly offsetting these positives were unfavorable foreign currency exchange rates (-$0.01/share).

Operating income declined to $115 million as operating revenues decreased to $364 million from $406 million and operating expenses dropped to $254 million from $270 million. After adjusting for other/income & expenses, interest expense, income taxes, and income attributable to non-controlling interest segment income rose to $146 million from $87 million. GWh sales, when comparing the two quarters, decreased 13.1% to 4,281 GWh.

Other (includes corporate interest expense, DUK's captive insurance company results, other investments, & income tax levelization adjustments) generated a net expense of $65 million vs. $57 million. This segment reduced overall earnings by $0.09/share. Operating revenues were $28 million vs. $36 million and operating expenses were $100 million vs. $156 million.

RECENT DEVELOPMENTS

The Board of Directors recently increased the annual dividend 2% to $3.18/share from $3.12/share.

DUK, Dominion Resources (D), and AGL Resources (GAS), and Piedmont Natural Gas (PNY) announced the formation of a joint venture to build a natural gas pipeline, called the Atlantic Coast Pipeline. The project will cost approximately $4.5-$5.0 billion and will move gas from the Marcellus shale area in WVA to NC and VA. The objective is to move natural gas to end users in VA and NC and is expected to be in service by year end 2018. D will build/operate the pipeline on behalf of the joint venture and will be given a 45% ownership stake, with DUK owning 40%, and PNY and GAS owning 10% and 5%, respectively.

DUK filed a plan with Indiana regulators to modernize the state's electric grid. It would be a 7 year plan and cost approximately $1.9 billion using a combination of advanced technology and infrastructure upgrades designed to improve customer service and provide energy-use information.

DUK has agreed in principal to by the Osprey Energy natural gas-fired plant near Tampa FL. Additionally, DUK announced it would retire its remaining coal-fired plants in OH. Dynergy (DYN) announced it was acquiring Midwest generation assets from DUK for $2.8 billion. DUK agreed to acquire generating assets, consisting of 700 MV of generating capacity, from NC Eastern Municipal Power Agency for $1.2 billion. A three site solar energy project in eastern NC will be built by DUK with plans to sell the generated power to institutions in Washington DC. This solar project will have generating approximately of 52 MW.

DUK completed its clean-up of a 15 mile stretch of the Ohio River following a 5,000 gallon fuel oil spill from its power plant located near Cincinnati OH. The company also signed a clean-up agreement of the Dan River, with NC and VA, following the dumping of toxic coal ash into the river. The agreement calls for no cap on what DUK may have to pay to complete the clean-up process and management was unable to estimate the costs for this clean-up upon completion, including potential fines.

Our Thoughts

We continue to recommend DUK for income/growth investors seeking a high dividend yield of 4.4% and appreciation potential. The company reported solid 2Q14 results with adjusted diluted earnings of $1.11/share vs. $0.87/share during 2Q13. Improved earnings were primarily due to favorable weather and favorable tax treatments during the just-completed quarter as all three of DUK's operating units produced increased adjusted segment income. Given these results, DUK raised 2014's adjusted earnings guidance range to $4.45-$4.60/share from $4.50-$4.65/share. Assuming earnings growth continues in 2015, we believe the potential exists for another dividend increase during the next 12 months. Our price target is $76/share, equating at 1.32x book value.

Risks

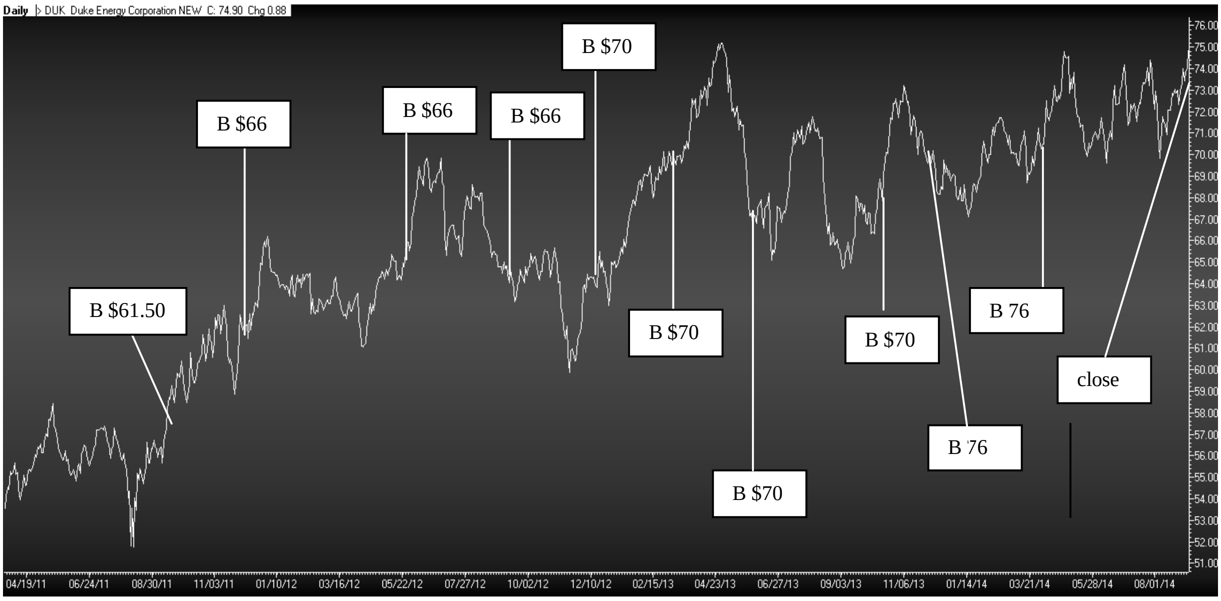
There is no guarantee DUK will improve earnings/cash flow. Declining US electric sales volumes may hurt the company's revenues and profits. Rising interest rates, higher fuel prices, negative rate case decisions, tax issues, or rising operating costs could negatively impact DUK's earnings. DUK's stock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

Steven F. Marascia
Director of Research
Capitol Securities Management
804-612-9715

Duke Energy
Condensed Consolidated Statements of Operations
unaudited
(in millions, except per share amounts)

	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14e	4Q14e	2014e
Operating Revenues:										
Regulated electric	$4,889	$4,834	$5,718	$4,998	$20,439	$5,578	$5,167	$5,362	$5,013	$20,175
Non-regulated electric/natgas/other	824	951	908	965	3,648	824	675	953	962	3,763
Regulated natural gas	185	94	83	149	511	222	107	86	108	459
Total Operating revenues	5,898	5,879	6,709	6,112	24,598	6,624	5,949	6,421	6,083	24,397
Operating Expenses:										
Fuel elecctric gen. & purchased power-reg	1,703	1,678	2,013	1,714	7,108	2,000	1,808	1,997	1,842	7,403
Fuel electric gen. & purch power-non reg	454	447	428	493	1,822	409	436	456	349	1,732
Cost of natural gas & coal sold	104	43	33	74	254	122	43	48	87	284
Operation, maintenance, & other	1,421	1,504	1,458	1,527	5,910	1,506	1,467	1,476	1,526	6,077
Depreciation & Amortization	660	678	707	763	2,808	790	761	692	748	2,839
Property & other taxes	343	323	325	308	1,299	358	318	343	323	1,279
Impairment charges		386	2	11	399	1,382	6	22	38	126
Total Operating expenses	4,685	5,059	4,966	4,890	19,600	6,567	4,839	5,024	4,913	19,680
Gains/losses sale of other assets (net)	2	1		-19	-16	1	6	-6	-18	-21
Operating Income	1,215	821	1,743	1,203	4,982	58	1,116	1,391	1,152	4,696
Other Income/Expenses										
Equity in earnings of unconsolidated affiliates	36	22	33	31	122	36	33	27	23	113
Impairments/Gains on unconsol affiliates sales		-6		106	100			-8	2	-11
Other Income/Expenses	80	54	54	74	262	95	89	48	65	230
Total other income/expenses	116	70	87	211	484	131	122	67	90	332
Interest expense	367	381	379	419	1,546	406	413	423	426	1,689
Income from Cont Ops before Income Taxes	964	510	1,451	995	3,920	-217	825	1,035	816	3,339
Income tax expense	330	165	457	309	1,261	-127	209	362	261	705
Income from Cont Ops before Income Taxes	634	345	994	686	2,659	-90	616	673	555	1,754
Income from Discontinued Ops, net of Taxes		-3	14	6	17	-3	-3		7	1
Net Income	634	342	1,008	681	2,676	-93	613	673	562	1,755
Net Income/loss attributable to non-controlling interest		-3	-4	-4	-11	-4	-4	-4	-3	-15
Net Income attributable to Duke Energy Corp	$634	$339	$1,004	$688	$2,665	($97)	$609	$669	$559	$1,740
Diluted EPS	$0.89	$0.48	$1.42	$0.97	$3.76	($0.14)	$0.86	$0.95	$0.79	$2.46
Net Income from discon ops attributable shareholders										
Diluted EPS	$0.89	$0.48	$1.42	$0.97	$3.76	($0.14)	$0.86	$0.95	$0.79	$2.46
Adjustments	$0.13	$0.39	$0.04	$0.03	$0.59	$1.31	$0.25	$0.18	$0.31	$2.05
Adjusted Diluted EPS	$1.02	$0.87	$1.46	$1.00	$4.35	$1.17	$1.11	$1.13	$1.10	$4.51

Important Disclosures



12/6/13 Raise Price Target to $76
12/12/12 Raise Price Target to $70
12/5/11 Raise Price Target to $66
9/19/11 Raise Price Target to $61.50
9/23/09 Initiate Buy Rating & $60 Target Price
Ratings:
Buy: B
Hold: H
Sell: S

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