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PROGRESS ENERGY (PGN; 43.80)

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DUKE ENERGY (DUK; 17.52)

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Electric utility Progress Energy has agreed to be acquired by rival Duke Energy for \$13.7 billion, potentially forming the largest operator in the industry. Under terms of the deal, Progress Energy stockholders would receive 2.6125 shares of Duke Energy stock for each PGN unit held, which values the company at roughly \$46.50 a share. In addition, Progress shareholders would receive a 3% dividend increase. The transaction still requires the approval of both sets of shareholders, as well as the go-ahead from regulatory commissions in North and South Carolina, the Federal Energy Regulatory Commission, and the Nuclear Regulatory Commission. The companies are targeting a yearend completion date for the deal.

We advise Progress Energy stockholders to retain their shares in anticipation of the acquisition's completion. Moreover, since the premium being paid is relatively low, there is little downside risk in the event that the deal falls through. As for Duke Energy, the buyout will likely be dilutive to earnings in the near term, but ought to prove highly beneficial over the long haul, as cost savings are realized.

M.R.

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