

**February 5, 2010**

**CURRENT PRICE:** \$36.75  
**RATING:** OUTPERFORM  
**PRICE TARGET:** \$42.00  
**CURRENT YIELD:** 5%

**EPS Estimates - Non-GAAP**

	DEC 09A	DEC 10E
1Q	\$0.97 A	\$1.00 e
2Q	\$0.68 A	\$0.69 e
3Q	\$0.99 A	\$1.01 e
4Q	\$0.63 A	\$0.64 e
	<b>\$3.27</b>	<b>\$3.34</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$38.24-\$27.14**  
 SHARES OUTSTANDING: **598.7(M)**  
 MARKET CAP: **\$22,002(M)**  
 AVG. DAILY TRADING VOLUME: **2.07(M)**  
 S&P 500: **1,066**

**Valuation Data**

BOOK VALUE: **\$18.97**  
 PRICE TO BOOK: **1.94x**  
 DIVIDEND: **\$1.83**

**DOMINION RESOURCES (NYSE:D)**

*4Q09 Earnings Release; Maintain Outperform Rating*

**HIGHLIGHTS**

- Quarterly operating earnings of \$0.63/sh vs \$0.73/sh
- Weather, outages, & depreciation/amortization cause decrease
- Raised annual dividend 4.6% to \$1.83/sh
- Expect VA rate case decision during 1H10
- \$42/share price target

**INVESTMENT THESIS**

Given the current economic recession, and uncertain length of its duration, investors should consider high-yielding dividend equities operating in predictable industries. One such company is Dominion Resources (D-\$34.40), providing energy/energy services to the mid-Atlantic area. The company pays an attractive dividend yield of 5%. Future earnings growth may allow D to increase the annual dividend. Profitability could increase from favorable regulatory rate rulings, improvement in natural gas prices, and company efforts to manage/reduce operating costs. Given D's attractive 5% dividend yield, and our price target of \$42/share, these shares are recommended for income/growth investors.

**COMPANY SUMMARY**

Dominion Resources, headquartered in Richmond VA, is one of the largest US electric utilities. The company has three operating units: Dominion Virginia Power, Dominion Generation, and Dominion Energy. Dominion Virginia Power operates D's regulated electric distribution, transmission and un-regulated retail business (gas & electric). The electric distribution business provides electricity to 2.4 million customers in VA/NC, and 1.6 million un-regulated retail energy customer accounts in 12 states. Dominion Generation operates the electric generation plants for D. This unit has 27,500 megawatts of generation capacity and 67% of this generation goes to D's regulated electric customers in VA/NC with the remaining 33% allocated to the non-regulated customers in the northeast US and the Mid-Atlantic areas.

*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

Dominion Energy operates the natural gas pipeline/storage business, a liquefied natural gas terminal at Cove Pt. Maryland, and Dominion East Ohio. Energy assets include 14,000 miles of natural gas transmission, gathering and storage pipelines. Since 2003 dividend has grown from \$1.29/share to \$1.75/share and operating earnings increased from \$2.26/share to \$3.16 in 2008. D's 2008 revenues, on a GAAP basis, totaled \$16.29 billion and net income totaled \$1.83 billion

## RECENT EARNINGS

Dominion Resources (D-\$37.60) reported 4Q09 GAAP earnings of \$0.28/share compared to \$0.60/share during 4Q08. The decline in the results came from unfavorable weather in the regulated utility business, increased outage costs, and higher depreciation/amortization expenses. Operating earnings (non-GAAP) quarterly profits were \$0.63/share vs. \$0.73/share while operating revenues declined to \$3.62 billion from \$4.03 billion. Overall operating expenses, on a quarter-to-quarter basis, fell to \$2.95 billion from \$3.21 billion. The reduction came from lower electric fuel/other energy-related purchases (\$946 million vs. \$1.07 billion), purchased electric capacity ((\$102 million vs. \$105 million), purchased gas expense (\$560 million vs. \$824 million), and other taxes (\$117 million vs. \$123 million). These offset increases in other operations/maintenance expense (\$937 million vs. \$818 million) and depreciation/depletion/amortization costs (\$290 million vs. \$260 million). Interest and related charges rose to \$232 million from \$205 million and overall income tax expense fell to \$108 million from \$213 million. Operating earnings for 2009 were \$3.27/share compared to \$3.16/share during 2008.

### Segment Results:

The Dominion Virginia Power (DVP) unit's revenues grew to \$863 million from \$822 million. This unit's operating expenses rose to \$691 million from \$648 million as electric fuel/other energy-related purchases increased to \$170 million from \$128 million and other operations/maintenance expense was \$168 million versus \$143 million. These increases offset a decline in purchased gas costs of \$244 million compared to \$272 million. DVP's operating income fell slightly to \$172 million from \$174 million.

Operating revenues at the Dominion Energy (DE) unit fell to \$962 million from \$1.21 billion. This unit's operating income was \$243 million vs. \$257 million. DE's operating expenses declined to \$719 million from \$951 million. The largest portion of the decline in this unit's expenses was due to purchased gas costs falling to \$398 million from \$611 million. DE's electric fuel/energy-related purchases, other operations/maintenance expense, and depreciation/depletion/amortization posted small declines during the current quarter.

Dominion Generation (DG) operating revenue declined to \$1.93 billion from \$2.1 billion. Operating income decreased to \$263 million from \$372 million despite lower operating expenses of \$1.67 billion versus \$1.72 billion. Electric fuel/other energy-related purchases fell to \$815 million from \$964 million and purchased electricity costs dropped slightly to \$102 million from \$105 million. These decreases offset a rise in other operations/maintenance expense to \$577 million from \$500 million and depreciation/depletion/amortization expenses of \$134 million versus \$111 million.



# EQUITY RESEARCH

## OUR THOUGHTS

No real surprises in D's earnings report. Obviously, 3Q09 weather affected its business, as was the case with most east coast utilities, thus causing a decline in quarterly earnings results. First the service territory experienced a warm fall & then got hit with the December snow storms which knocked out power to parts of D's service territory. 2010 earnings prospects look positive given management's operating profit guidance of \$3.20-\$3.40/share. These expectations are reflected in D's decision to raise its annual dividend 4.6% to \$1.83/share from \$1.75/share. Company plans to payout 55% of future earnings to shareholders as dividends. Thus, 2010 earnings growth could lead to another dividend increase during 2H10. A trigger for D's stock could be a potentially favorable ruling by Virginia regulators, expected during 1H10, regarding D's request for a rate base increase. Should this occur, while operating expenses are contained, and in conjunction with an improving US economy, then D could generate earnings growth acceleration during 2010-2011. Our 2010 earnings estimate is \$3.34/share. We rate these shares a **OUTPERFORM** & D is recommended for income/growth investors given the attractive dividend yield of 5% and appreciation potential. Our price target is \$42/share, equating to 12.6x our 2010 earnings estimate.

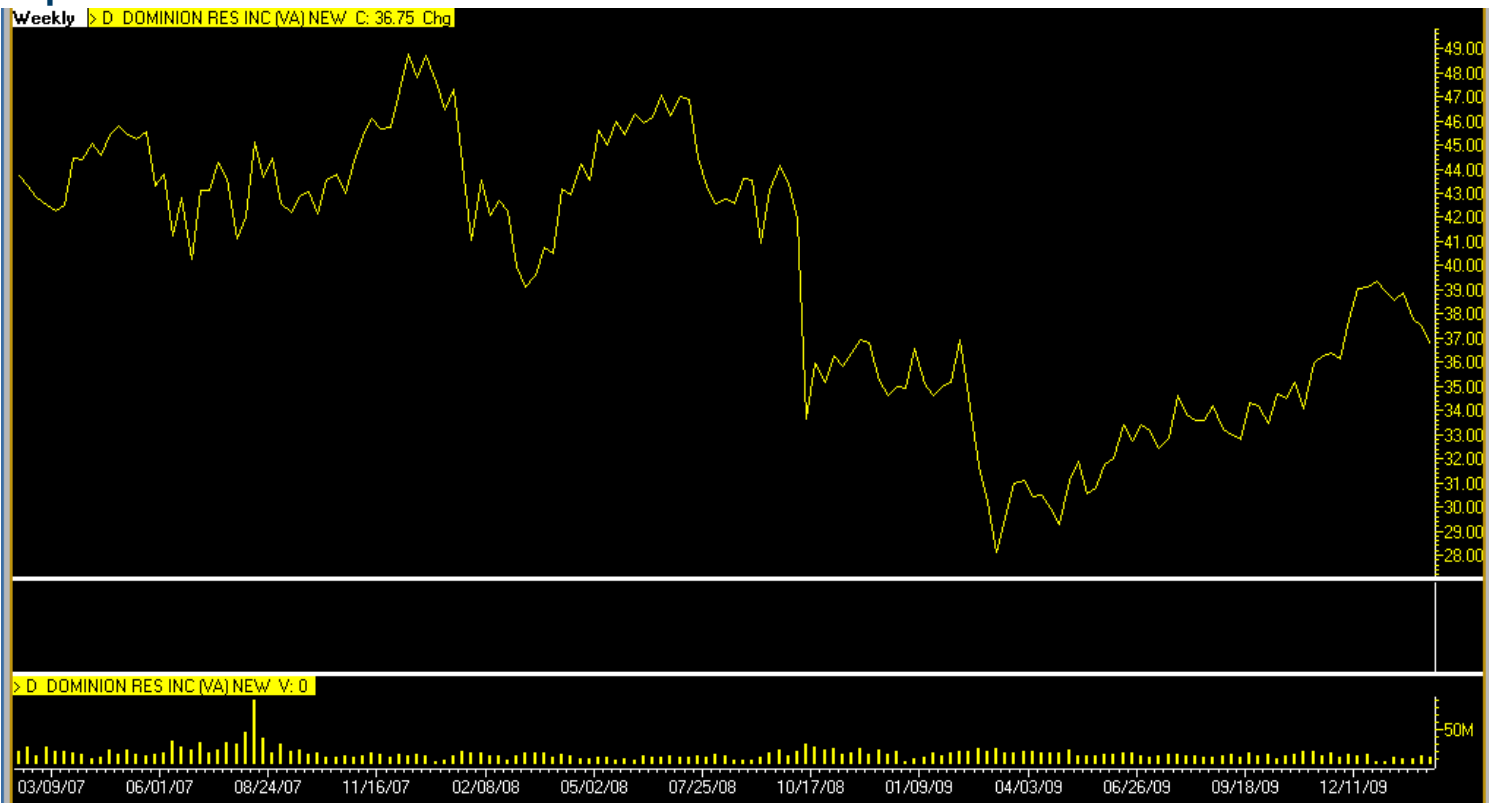
## RISKS

There is no guarantee D 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 D's earnings. D'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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## Important Disclosures



Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Steven Marascia owns shares of Dominion Resources.

Capitol Securities and employees of Capitol Securities may own shares of Dominion Resources.

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- (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.
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