

May 18, 2010

CURRENT PRICE: \$40.71
RATING: OUTPERFORM
PRICE TARGET: \$42
CURRENT YIELD: 4.5%

EPS Estimates - Non-GAAP

	DEC 09A	DEC 10E
1Q	\$0.97 A	\$0.96
2Q	\$0.68 A	\$0.65 e
3Q	\$0.99 A	\$1.01 e
4Q	\$0.63 A	\$0.64 e
	\$3.27	\$3.26

Trading Data

52-WEEK PRICE RANGE: **\$42.56-\$30.12**
 SHARES OUTSTANDING: **600.9(M)**
 MARKET CAP: **\$24,463(M)**
 AVG. DAILY TRADING VOLUME: **3.08(M)**
 S&P 500: **1,121**

Valuation Data

BOOK VALUE: **\$18.97**
 PRICE TO BOOK: **2.12x**
 DIVIDEND: **\$1.83**

DOMINION RESOURCES (NYSE:D)

1Q10 Earnings Release; Maintain Outperform Rating

HIGHLIGHTS

- 1Q10 operating earnings of \$0.96/sh vs \$0.98/sh
- Decline due to lower margins in Merchant Business
- Guidance of \$3.20-\$3.40/share operating earnings in 2010
- Adjusting our earnings estimate to \$3.26/share
- Maintain OUTPERFORM rating & \$42/share target price

INVESTMENT THESIS

Given the recent debate on the length of the current US recession, and potential rebound in the economy, investors should consider high-yielding dividend equities operating in predictable industries. One such company is Dominion Resources (D-\$40.71), providing energy/energy services in the Mid-Atlantic area. The company pays an attractive dividend yield of 4.5%. Future earnings growth may allow D to increase the annual dividend. Profitability could increase from recent regulatory rate rulings, improvement in natural gas prices, and company efforts to manage/reduce operating costs. Given D's attractive 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 \$1.83/share and operating earnings for 2009 were \$3.27/share compared to \$3.16/share during 2008.

RECENT EARNINGS

Dominion Resources reported 1Q10 GAAP earnings of \$0.29/share vs \$0.42/share during 1Q09. Operating earnings were \$0.96/share vs \$0.98/share on a quarter-to-quarter basis. D's operating earnings results are what management tends to focus on in terms of measuring profitability. The decline in 1Q10's results were due to lower merchant generation profitability, lower gas/oil production due to the expiration of overriding royalty interests from former projects and lower contributions from D's producer services. Partly offsetting these were increased contributions from the regulated electric utility and gas transmission segments where favorable weather during the quarter improved results in the regulated electric business. Overall revenues declined to \$4.13 billion from \$4.6 billion and overall operating expenses fell to \$3.07 billion from \$3.5 billion. Earnings for Dominion Virginia Power declined slightly to \$114 million from \$115 million, while Dominion Energy's earnings fell to \$175 million from \$177 million. Dominion Generation saw its profitability reduced to \$325 million from \$369 million due to lower pricing in the electric wholesale market. Corporate and other expenses decline to \$38 million from \$87 million.

OUR THOUGHTS

While the ongoing EPS results showed a slight decline, \$0.96/share vs \$0.98/share when comparing the two quarters, there were no surprises in the results. The biggest hit to 1Q10's results came from Dominion Generation as the current economic slowdown lowered the selling price of electricity to industrial customers, and causing a \$44 million decline in this unit's profitability. This could reverse itself if a pick-up in the US economy causes increased demand in the wholesale electric markets allowing for higher prices paid for purchased kilowatts from D. The company has done a lot of cost cutting during the past two years including the recent announcement of an early retirement program for 1,000 of its employees. For example consolidated operating expenses declined to \$3.4 billion in 1Q10 from \$3.9 billion during 1Q09. Assuming operating expenses remain at current levels in conjunction with a rise in revenues from a US economic rebound, then D could see earnings growth in 2011 & 2012, along with many other US electric utilities. In recent news the company completed the sale of its Appalachian natural gas/oil exploration and production business to Consolidated Energy for \$3.48 billion.



The operating picture for D looks positive as the company has reduced operating risks/costs over the past 2 years, settled its rate case with the state of Virginia, and could potentially benefit from an improvement in the US economy. An improving economy may generate higher retail/merchant sales for D, and given recent cost cutting efforts, could produce higher profit margins. Under this scenario, increased profit margins/cash flow could create higher earnings in 2011 or 2012. Additionally, higher earnings could lead to dividend growth in the future. Given 1Q10 results and 2Q10 guidance from management, we are lowering our 2010 earnings estimate to \$3.26/share from \$3.34/share, in line with D's 2010 guidance of \$3.20-\$3.40/share. Our price target is \$42/share, equating to 12.9x our 2010 estimate. D is rated OUTPERFORM

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.

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

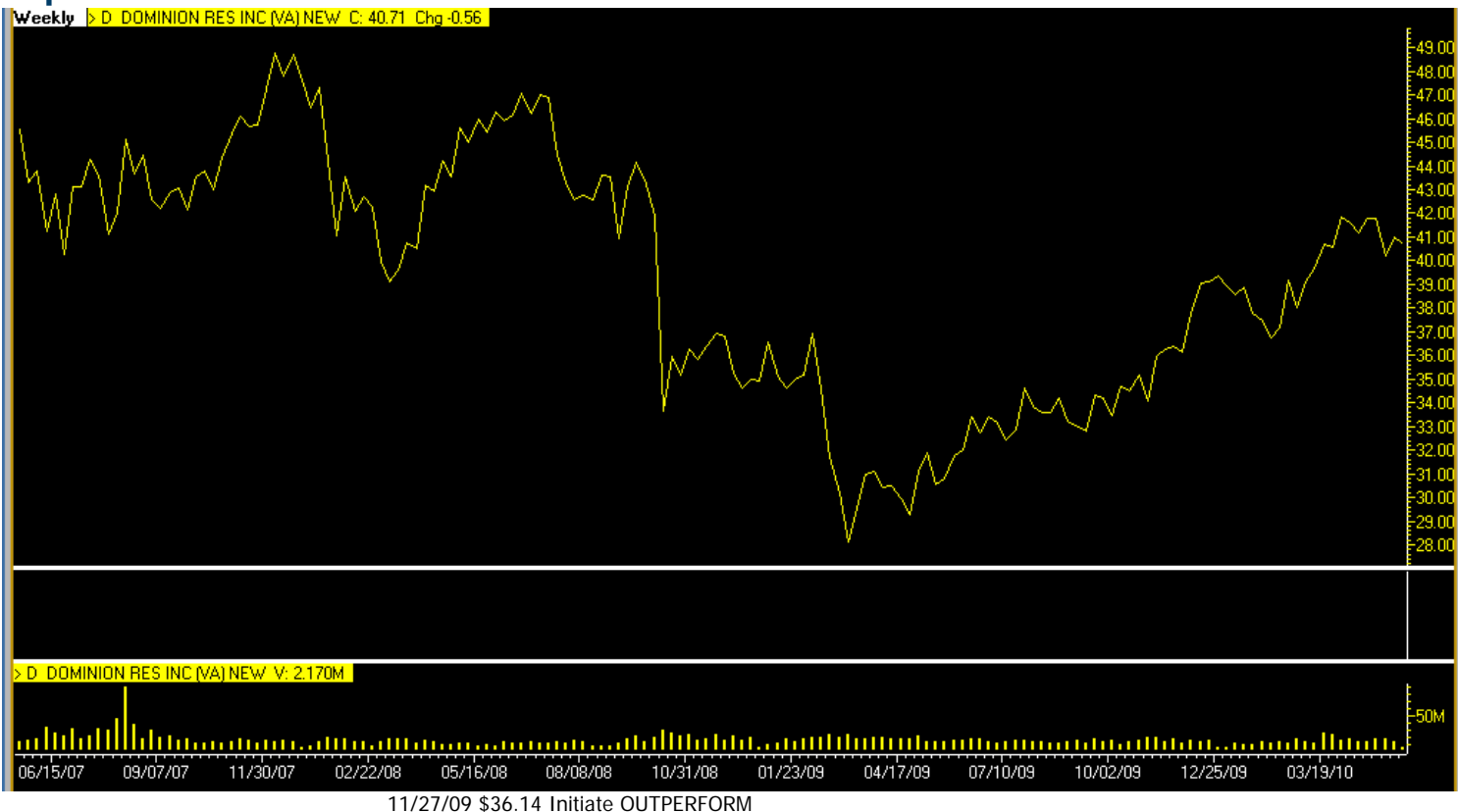


EQUITY RESEARCH

Dominion Resources
(in millions, except per share data)

	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10e	3Q10e	4Q10e	FY10
Operating Revenue	\$4,510	3,388	\$3,623	\$3,617	\$4,168	\$3,396	\$3,679.00	\$3,625	\$15,048
Operating Expenses									
Electric fuel/other energy-related purchases	1,141	996	1,072	946	1,028	984	1,086	939	4,031
Purchased electric capacity	108	105	96	102	108	103	93	103	410
Purchased gas	952	339	279	560	792	351	284	561	2,054
Other operations & maintenance	773	773	709	937	1,068	762	705	942	3,198
Depreciation, depletion, & amortization	278	272	274	290	269	274	276	295	1,137
Other taxes	147	105	104	117	169	109	103	119	455
Total operating expenses	3,399	2,590	2,534	2,952	3,434	2,583	2,547	2,959	11,285
Income from operations	1,111	798	1,089	665	734	813	1,132	666	3,763
Other income	45	52	72	54	71	48	67	52	235
Income before interest & income taxes	1,156	850	1,161	719	805	861	1,199	718	3,998
Interest & related charges	223	221	217	232	183	232	218	225	903
Income before income taxes	933	629	944	487	622	629	981	493	3,095
Income taxes	364	219	348	108	295	242	373	109	1,115
noncontrolling interests		4	4	5	4	5	4	4	13
Operating Earnings	\$569	\$406	\$592	\$375	\$323	\$392	\$614	\$380	\$1,987
Operating Earnings per Share	\$0.97	\$0.68	\$0.99	\$0.63	\$0.96	\$0.65	\$1.01	\$0.64	\$3.26
Items excluded from operating earnings (net of taxes)	-321	48	2	-209	-149	29	-63	-185	-344
Reported Net Income	\$248	\$454	\$594	\$165	\$174	\$421	\$551	\$195	\$1,341
Reported Earnings Per Common Share-Diluted	\$0.42	\$0.76	\$1.00	\$0.28	\$0.29	\$0.74	\$0.92	\$0.33	\$2.79
Average shares outstanding, diluted	585.7	594	596.3	598.7	600.9	600.9	600.9	600.9	600.9

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.

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%

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.

Other Disclosures

This report is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Capitol Securities or its affiliates to any registration or licensing requirement within such jurisdiction. The information presented in this report is provided to you for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. Capitol Securities may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Capitol Securities will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Capitol Securities does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. Information and opinions presented in this report have been obtained or derived from sources believed by Capitol Securities to be reliable, but Capitol Securities makes no representation as to their accuracy or completeness. This report is not to be relied upon in substitution for the exercise of independent judgment. Capitol Securities may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Capitol Securities and are subject to change without notice. The price, value of and income from any of the securities mentioned in this report can fall as well as rise.



For more information on this report, please contact us at 888-612-1484 or write to Capitol Securities, 100 Concourse Boulevard, Suite 101, Glen Allen, Virginia 23059