



**May 26, 2015**

**CURRENT PRICE:** \$71.51  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 3.6%

**EPS Estimates - Non-GAAP**

	DEC 14A	DEC 15E
1Q	\$1.04	\$0.99A
2Q	\$0.62	\$0.70
3Q	\$0.93	\$1.06
4Q	\$0.84	\$0.98
	<b>\$3.43</b>	<b>\$3.73</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$80.89-\$64.71**  
 SHARES OUTSTANDING: **589.9(M)**  
 MARKET CAP: **\$42,190(M)**  
 AVG. DAILY TRADING VOLUME: **2.34(M)**  
 S&P 500: **2,104**

**Valuation Data**

BOOK VALUE: **\$20.20**  
 PRICE TO BOOK: **3.54x**  
 DIVIDEND: **\$2.59**

**Dominion Resources (NYSE: D)**

*Reports 1Q15 earnings results*

**Highlights**

- 1Q15 operating earnings \$0.99/share vs. \$1.04/share during 1Q14
- Improved operating results at DVP
- Merchant margins lower
- Confirmed 2015 operating earnings guidance of \$3.50-\$3.85/share
- Rated HOLD

**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 (DVP) 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 (DG) 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. Dominion Energy (DE) 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 the dividend has grown from \$1.29/share to \$2.59/share and operating earnings for 2014 improved to \$3.43/share from \$3.25/share during 2013.

*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.*

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## Recent Earnings

D reported 1Q15 operating earnings of \$0.99/share vs. \$1.04/share during 1Q14. The decrease in results was due mainly to the absence of the gain on sale of assets to Blue Racer, lower margins at merchant generation, and a higher tax rate. These were partially offset by earnings from D's Marcellus farm-out transactions, and higher revenues from various growth projects. Management noted the cold winter during 1Q15 added about \$0.05/share to earnings. DVP's operating earnings contributions rose to \$0.24/share from \$0.22/share, DE's declined to \$0.35/share from \$0.36/share, and DG's fell to \$0.48/share from \$0.53/share. When comparing the two quarters, revenues decreased to \$3.43 billion from \$3.63 billion and total operating expenses declined to \$2.32 billion from \$2.50 billion. Other income rose to \$33 million from \$26 million, interest expense declined to \$223 million from \$236 million, and income taxes increased to \$327 million from \$310 million. 1Q15's GAAP earnings increased to \$0.91/share from \$0.65/share.

## SEGMENT RESULTS

DVP's 1Q15 operating income rose to \$270 million from \$256 million during 1Q14. This occurred as an increase in operating revenues (\$569 million vs. \$504 million) outpaced a rise in operating expenses (\$299 million vs. \$248 million). The increase in operating costs resulted from higher expenses in other operations/maintenance (+\$39 million), depreciation, depletion, & amortization (+\$10 million), and other taxes (+\$2 million). Electric fuel and other energy-related purchases were flat at \$1 million. Other income decreased to \$11 million from \$13 million and operating EBIT improved to \$281 million from \$269 million. DVP's contribution to overall earnings rose to \$0.24/share from \$0.22/share.

Total delivered retail electrical GWh increased 3.1% to 22,016 GWh as Residential grew 3.1% to 9,872 GWh, Governmental improved 5.3% to 7,583 GWh, and Commercial rose 5.3% to 7,583 GWh. These higher amounts were due mainly to the cold weather during 1Q15. These gains were partly offset by a 9.1% decrease in Industrial GWh sales, falling to 1,931 GWh from 2,126 GWh. On 2/20/15 DVP experienced a new peak demand of 21,651 megawatts, exceeding previous winter peaks by 9%.

DE's operating income during 1Q15 increased to \$336 million vs. \$332 million during 1Q14. The improvement occurred as a lower operating expenses (\$403 million vs. \$519 million) more than offset lower operating revenues (\$739 million vs. \$851 million). The largest decline in operating expenses occurred in purchased gas (-\$141 million) and was followed by electric fuel/other energy related purchases (-\$10 million). These were partly offset by expense increases in other operations/maintenance (+\$24 million), depreciation, depletion & amortization (+\$7 million), and other taxes (+\$4 million). Other income rose to \$13 million from \$12 million and operating EBIT increased to \$349 million from \$344 million. DE's contribution to overall earnings declined to \$0.35/share from \$0.36/share.

Regulated gas revenues declined to \$109 million from \$134 million and regulated gas transportation/storage revenues rose to \$192 million from \$161 million. Total natural gas deliveries to 178,378 mmcf from 145,263 mmcf. The gain was due to increases in Industrial (39,392 mmcf vs. 36,829 mmcf) and Other (37,476 mmcf vs. 6,009



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mmcf) gas deliveries resulting from cold weather and farm-out activities. These were partly offset by 1% declines in Residential (68,122 mmcf vs. 68,651) and Commercial (33,388 mmcf vs. 33,684 mmcf) deliveries.

DG's 1Q15 operating income decreased to \$513 million from \$555 million during 1Q14. A decrease in operating expenses (\$1.64 billion vs. \$1.73 billion) was not enough to offset a decline in operating revenues (\$2.15 billion vs. \$2.28 billion). Overall results were impacted by lower margins from the merchant generation business. The decrease in operating expenses occurred in electric fuel/other energy-related purchases (-\$28 million), purchased gas (-\$112 million), and other taxes (-\$1 million). These were partly offset by expense increases in purchased electric capacity (+\$6 million), other operations/maintenance (+\$23 million), and depreciation, depletion, & amortization (+\$18 million). Other income rose to \$14 million from \$6 million and operating EBIT declined to \$527 million from \$561 million. DG's contribution to overall earnings fell to \$0.48/share from \$0.53/share.

Merchant generation electric sales to the NEPOOL Merchant Fleet rose to 4,612 GWh from 4,518 GWh and PJM Merchant Fleet sales declined to 1,346 GWh from 1,614 GWh. Natural gas volumes sold decreased to 26,286 mmcf from 44,132 mmcf.

## RECENT DEVELOPMENTS

Through the end of 1Q15, D announced the 1,358 megawatt Brunswick combined facility in Brunswick County is 60% complete with expectations for the project to remain on budget & commence operation by mid-2016.

This upcoming July, the company plans to file with the Virginia State Commission to build a three-on-one gas-fired combined cycle facility in Greensville County, VA. If approved the facility is expected to be in commercial operation by 2018 and will produce 1,600 megawatts of electricity.

During 1Q15, D unveiled plans to invest \$700 million in the building of several utility scale solar projects in VA, producing a total of 400 megawatts of electricity. Additionally, the construction of five merchant solar plants, totaling 132 megawatts, is scheduled for service by the end of this year.

In efforts to gain acceptance of its Atlantic Coast Pipeline project, D recently announced potential route changes for the pipeline intended to run through the Virginia mountain range. This past February, FERC issued a notice of intent to prepare an environmental impact study on both the Atlantic Coast Pipeline and Supply Header projects.

This past January, D completed its acquisition of Carolina Gas Transmission from SCANA (SCG-\$52.93) and sold its Dominion Midstream Partners (DM-\$42.16) in April. D also began an aftermarket program to raise \$500 million of common equity. Through the first week of this past April, D had raised approximately \$264 million and anticipates finishing the equity issuance by the end of 2015.



## Our Thoughts

A decent report for D as the company produced 1Q15 operating earnings of \$0.99/share, vs. \$1.04/share during 1Q14. DVP reported improved operating income of \$0.24/share vs. \$0.22/share while DE's declined to \$0.35/share from \$0.36/share, and DG's decreased to \$0.48/share from \$0.53/share. The company benefited from cold weather during this past quarter yet saw a decrease in margins in the merchant generation business. Additionally, there was an absence of the gain on sale of assets to Blue Racer and a higher tax rate during 1Q15, when compared to 1Q14. D's management confirmed 2015 operating earnings guidance of \$3.50-\$3.85/share. Under this scenario, the Board of Directors could increase the common stock dividend during the next 12 months. We continue to rate this stock a HOLD given it currently trades at a high valuation for a utility at 3.54x book value/share and 19.2x our 2015 operating earnings estimate of \$3.73/share.

## 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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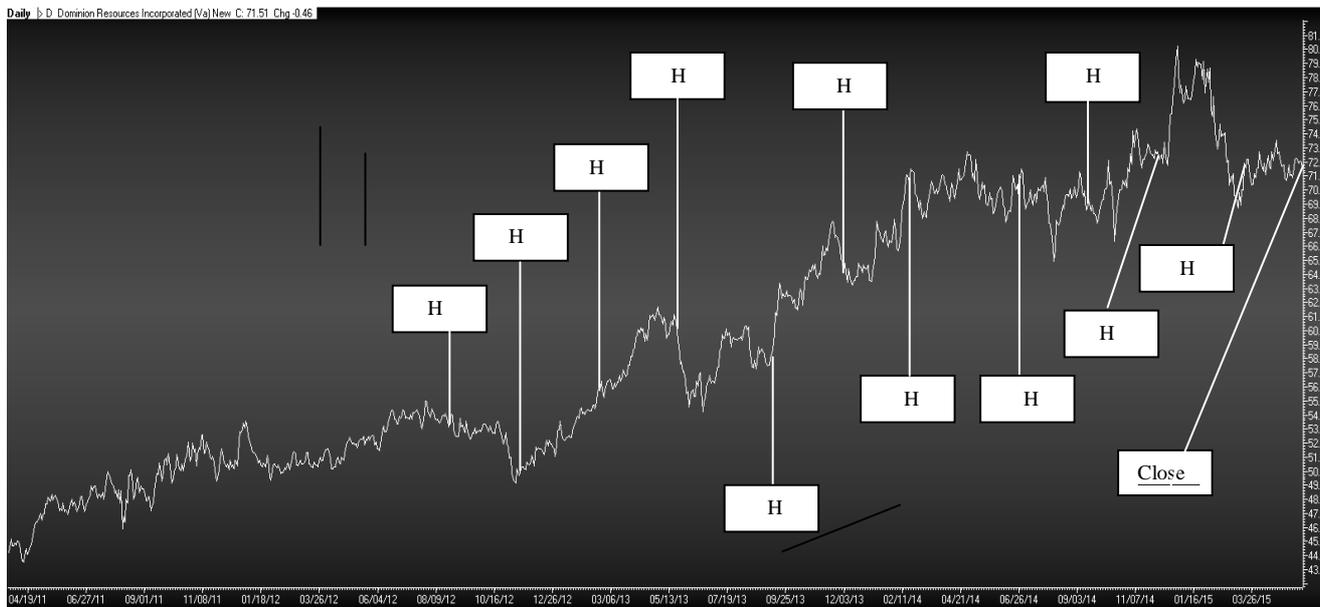
**Dominion Resources**  
(in millions, except per share data)

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15e	3Q15e	4Q15e	FY15e
<b>Operating Revenue</b>	\$3,631	\$2,813	\$3,050	\$2,972	\$12,466	\$3,427	\$2,934	\$3,607	\$3,659	\$13,627
<b>Operating Expenses</b>										
Electric fuel/other energy-related purchases	898	633	743	690	2,964	868	637	1,063	1,108	3,676
Purchased electric capacity	88	87	86	100	361	94	93	96	97	390
Purchased gas	533	324	209	281	1,347	250	289	227	286	1,052
Other operations & maintenance	512	626	570	629	2,337	602	604	565	584	2,355
Depreciation, depletion, & amortization	307	308	317	322	1,254	343	298	319	293	1,253
Other taxes	160	134	123	116	535	185	154	154	163	636
<b>Total operating expenses</b>	<b>2,498</b>	<b>2,112</b>	<b>2,048</b>	<b>2,140</b>	<b>8,798</b>	<b>2,322</b>	<b>2,075</b>	<b>2,424</b>	<b>2,531</b>	<b>9,352</b>
<b>Income from operations</b>	<b>1,133</b>	<b>701</b>	<b>1,002</b>	<b>832</b>	<b>3,668</b>	<b>1,105</b>	<b>859</b>	<b>1,183</b>	<b>1,128</b>	<b>4,275</b>
<b>Other income</b>	<b>26</b>	<b>51</b>	<b>39</b>	<b>67</b>	<b>183</b>	<b>33</b>	<b>32</b>	<b>44</b>	<b>25</b>	<b>134</b>
<b>Income before interest &amp; income taxes</b>	<b>1,159</b>	<b>752</b>	<b>1,041</b>	<b>899</b>	<b>3,851</b>	<b>1,138</b>	<b>891</b>	<b>1,227</b>	<b>1,153</b>	<b>4,409</b>
<b>Interest &amp; related charges</b>	<b>236</b>	<b>226</b>	<b>228</b>	<b>217</b>	<b>907</b>	<b>223</b>	<b>244</b>	<b>246</b>	<b>242</b>	<b>955</b>
<b>Income before income taxes</b>	<b>923</b>	<b>526</b>	<b>813</b>	<b>682</b>	<b>2,944</b>	<b>915</b>	<b>647</b>	<b>981</b>	<b>911</b>	<b>3,454</b>
<b>Income taxes</b>	<b>310</b>	<b>163</b>	<b>266</b>	<b>196</b>	<b>925</b>	<b>327</b>	<b>233</b>	<b>353</b>	<b>335</b>	<b>1,248</b>
<b>noncontrolling interests</b>	<b>6</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>16</b>	<b>4</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>18</b>
<b>Operating Earnings</b>	<b>\$607</b>	<b>\$361</b>	<b>\$545</b>	<b>\$490</b>	<b>\$2,003</b>	<b>\$584</b>	<b>\$408</b>	<b>\$624</b>	<b>\$572</b>	<b>\$2,188</b>
<b>Operating Earnings per Share</b>	<b>\$1.04</b>	<b>\$0.62</b>	<b>\$0.93</b>	<b>\$0.84</b>	<b>\$3.43</b>	<b>\$0.99</b>	<b>\$0.70</b>	<b>\$1.06</b>	<b>\$0.98</b>	<b>\$3.73</b>
<b>Items excluded from operating earnings (net of taxes)</b>	<b>-288</b>	<b>-203</b>	<b>-19</b>	<b>-247</b>	<b>-693</b>	<b>-48</b>	<b>-217</b>	<b>-189</b>	<b>-58</b>	<b>-512</b>
<b>Reported Net Income</b>	<b>\$379</b>	<b>\$158</b>	<b>\$526</b>	<b>\$243</b>	<b>\$1,310</b>	<b>\$536</b>	<b>\$189</b>	<b>\$435</b>	<b>\$514</b>	<b>\$1,674</b>
<b>Reported Earnings Per Common Share-Diluted</b>	<b>\$0.65</b>	<b>\$0.27</b>	<b>\$0.90</b>	<b>\$0.42</b>	<b>\$2.24</b>	<b>\$0.91</b>	<b>\$0.32</b>	<b>\$0.74</b>	<b>\$0.88</b>	<b>\$2.25</b>
<b>Average shares outstanding, diluted</b>	<b>581.6</b>	<b>583.9</b>	<b>584.6</b>	<b>584.5</b>	<b>585.4</b>	<b>589.9</b>	<b>589.9</b>	<b>589.9</b>	<b>589.9</b>	<b>589.9</b>



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## Important Disclosures



11/27/09 \$36.14 Initiate BUY  
 6/18/10 \$42 Lower Rating to HOLD  
 Ratings:  
 Buy: B  
 Hold: H  
 Sell: S

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Steven Marascia owns shares of Dominion Resources

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