



March 23, 2015

CURRENT PRICE: \$72.18
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.6%

EPS Estimates - Non-GAAP

	DEC 14A	DEC 15E
1Q	\$1.04	\$0.87
2Q	\$0.62	\$0.70
3Q	\$0.93	\$1.06
4Q	\$0.84	\$0.98
	\$3.43	\$3.61

Trading Data

52-WEEK PRICE RANGE: **\$80.89-\$64.71**
 SHARES OUTSTANDING: **586.5(M)**
 MARKET CAP: **\$42,334(M)**
 AVG. DAILY TRADING VOLUME: **3.42(M)**
 S&P 500: **2,104**

Valuation Data

BOOK VALUE: **\$19.67**
 PRICE TO BOOK: **3.67x**
 DIVIDEND: **\$2.59**

Dominion Resources (NYSE: D)

Reports 4Q14 earnings results

Highlights

- 4Q14 earnings \$0.84/share vs. \$0.80/share during 4Q13
- Improved results at three operating units
- Annual dividend increased 7.9%
- Established 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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EQUITY RESEARCH

Recent Earnings

D reported 4Q14 operating earnings of \$0.84/share vs. \$0.80/share during 4Q14. The quarterly earnings improvement was the result of higher earnings contributions its' three operating units: Dominion Virginia Power, Dominion Energy, and Dominion Generation. Revenues when comparing the two quarters declined to \$2.97 billion vs. \$3.23 billion and total operating expenses fell to \$2.14 billion from \$2.37 billion. Other income rose to \$67 million from \$36 million, interest expense decreased to \$217 million from \$226 million, and taxes declined to \$186 million from \$203 million. FY14 operating earnings rose to \$3.43/share from \$3.25/share during FY13. 4Q14 GAAP earnings were \$0.42/share vs. \$0.74/share and FY14 GAAP earnings decreased to \$2.24/share vs. \$2.93 during FY13.

SEGMENT RESULTS

DVP's operating income rose to \$247 million from \$236 million when comparing 4Q14 with 4Q13. Operating revenues increased to \$498 million from \$462 million more than offsetting a rise in operating expenses to \$251 million from \$226 million. The rise in operating expenses is attributable to increases in other operations/maintenance (+\$12 million), depreciation/depletion/ amortization (+\$10 million), and other taxes (+\$2 million). Other income rose to \$24 million from \$18 million and EBIT grew to \$271 million from \$254 million. Total delivered retail electrical GWh increased slightly to 19,137 GWh from 19,111 GWh as residential delivered GWh fell 1% to 7,136 GWh, Government decreased 2.5% to 2,587, commercial was flat at 7,227 GWh, and industrial rose 8.1% to 2,187 GWh. DVP's overall earnings contribution improved to \$0.23/share from \$0.22/share.

DE's operating income improved to \$311 million from \$280 million as operating revenues increased to \$757 million from \$699 million and outpaced a rise in operating expenses, to \$446 million from \$419 million. The largest gains on the expense side came from purchased gas (+\$34 million) and depreciation/depletion/amortization (+\$18 million), more than offsetting decreases in electric fuel/other energy-related purchases (-\$22 million), other operations/maintenance (-\$3 million), and flat other taxes. Regulated gas revenues decreased slightly to \$74 million from \$75 million and regulated gas transportation/storage revenues increased to \$146 million from \$120 million. LDC natural gas delivery rose to 120,692 mmcf from 89,151 mmcf, mainly due to "other's" deliveries rising to 32,451 mmcf from 2,513 mmcf. Industrial deliveries increased 11.5% to 32,299 mmcf, commercial was flat at 18,734 mmcf, and residential declined 4.5% to 37,207 mmcf. DE's overall earnings contribution rose to \$0.34/share from \$0.29/share.

DG's operating income decreased to \$281 million from \$362 million as a decrease in total operating expenses, \$1.47 billion vs. \$1.74 billion, was not enough to offset a decline in revenues, \$1.75 billion vs. \$2.1 billion. The decrease in operating expenses were the result of lower electric fuel/otho energy-related purchases (-\$242 million), purchased gas (-\$66 million), depreciation/depletion/amortization (-\$4 million), and other taxes (-\$4 million). These were partly offset by higher other operations/maintenance (+\$41 million) and purchased electricity capacity (+\$9 million). EBIT decreased to \$300 million from \$373 million but a favorable tax treatment for the quarter added \$66 million to DG's results allowing operating income to rise to \$307 million from \$252 million. DG's natural gas



volumes sold decreased 26.7% to 18,559 mmcf from 26,375 mmcf. DG's overall overall earnings contribution rose to \$0.52/share from \$0.43/share.

RECENT DEVELOPMENTS

During 4Q14 D recently spun-off Dominion Midstream Partners (DM) in a \$350 million IPO. The offer was 17.5 million shares at \$19-21/share. These units offer a 27.4% limited partner interest in Dominion Midstream, which controls the Cove Point LNG facility on the Chesapeake Bay and owns approximately 136 miles of natural gas pipeline, connecting Cove Point to interstate natural gas pipelines.

Cove Point LNG was given final approval by US regulators to build the east coast's first natural gas liquefaction plant. It is a \$3.8 billion project, headed by D, and is expected to be operational by 2017.

D submitted a request to FERC to begin an environmental review of the proposed Atlantic Coast Pipeline project. This project is a joint venture with Duke Energy (DUK), Piedmont Natural Gas (PNY), and AGL Resources (AGL) and is expected to deliver 1.5 Bcf/day of natural gas from the Marcellus Utica shale basins to Virginia and North Carolina.

Our Thoughts

A good 4Q14 earnings report for D as operating earnings produced \$0.84/share vs. \$0.80/share during 4Q13. The improvement came from improved earnings at its three operating units. Improved results for 2014 (\$3.43/share) vs. 2013 (\$3.25/share) allowed the Board of Directors to raise the annual dividend 7.9% to \$2.60/share. This should please existing shareholder and management indicated future earnings growth could allow for additional increases in the annual dividend with intentions of achieving a dividend/earnings payout ratio of 70%-75%. D recently announced operating earnings guidance of \$3.60-\$3.80/share for 2015. We continue to rate this stock a HOLD given it currently trades at a high valuation for a utility at 3.7x book and 19.9x our 2015 earnings estimate of \$3.61/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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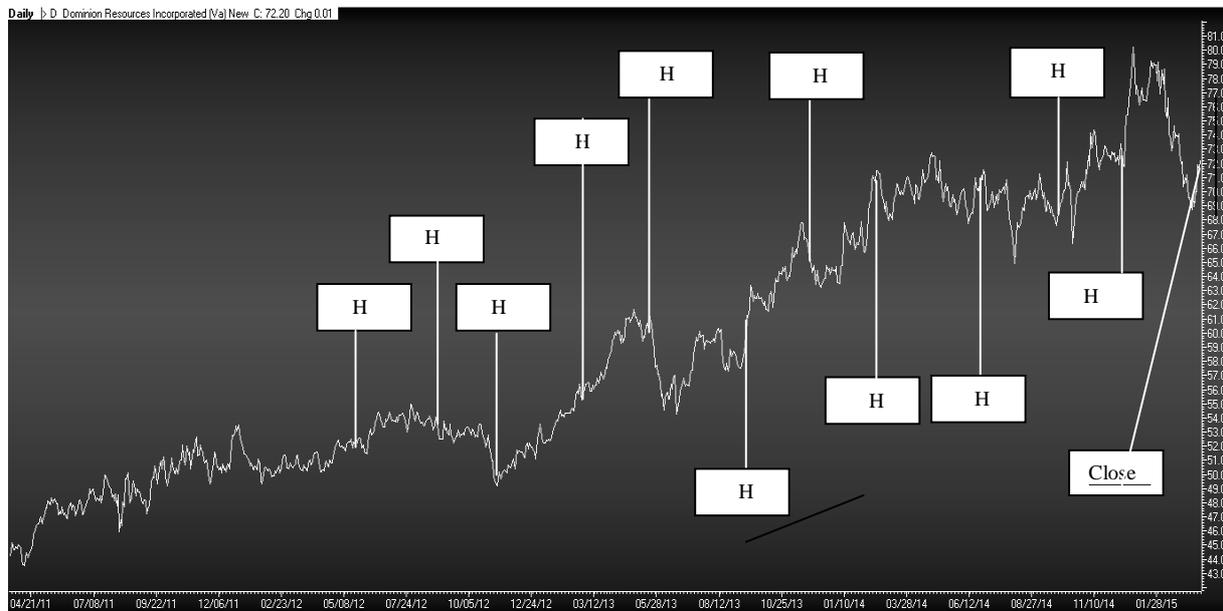


EQUITY RESEARCH

Dominion Resources
(in millions, except per share data)

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15e	2Q15e	3Q15e	4Q15e	FY15e
Operating Revenue	\$3,631	\$2,813	\$3,050	\$2,972	\$12,466	\$3,673	\$2,934	\$3,607	\$3,659	\$13,873
Operating Expenses										
Electric fuel/other energy-related purchases	898	633	743	690	2,964	1,087	637	1,063	1,108	3,895
Purchased electric capacity	88	87	86	100	361	84	93	96	97	310
Purchased gas	533	324	209	281	1,347	526	289	227	286	1,328
Other operations & maintenance	512	626	570	629	2,337	537	604	565	584	2,290
Depreciation, depletion, & amortization	307	308	317	322	1,254	294	298	319	293	1,144
Other taxes	160	134	123	116	535	124	154	154	153	595
Total operating expenses	2,498	2,112	2,048	2,140	8,798	2,652	2,075	2,424	2,531	9,682
Income from operations	1,133	701	1,002	832	3,668	1,021	859	1,183	1,128	4,191
Other income	26	51	39	67	183	23	32	44	25	124
Income before interest & income taxes	1,159	752	1,041	899	3,851	1,044	891	1,227	1,153	4,255
Interest & related charges	236	226	228	217	907	238	244	246	242	970
Income before income taxes	923	526	813	682	2,944	806	647	981	911	2,145
Income taxes	310	163	266	196	925	290	233	353	335	1,211
noncontrolling interests	6	2	2	6	16	6	6	4	4	20
Operating Earnings	\$607	\$361	\$545	\$490	\$2,003	\$510	\$408	\$624	\$572	\$2,114
Operating Earnings per Share	\$1.04	\$0.62	\$0.93	\$0.84	\$3.43	\$0.87	\$0.70	\$1.06	\$0.98	\$3.61
Items excluded from operating earnings (net of taxes)	-288	-203	-19	-247	-693	-155	-217	-189	-58	-619
Reported Net Income	\$379	\$158	\$526	\$243	\$1,310	\$355	\$189	\$435	\$514	\$1,493
Reported Earnings Per Common Share-Diluted	\$0.65	\$0.27	\$0.90	\$0.42	\$2.24	\$0.61	\$0.32	\$0.74	\$0.88	\$2.55
Average shares outstanding, diluted	581.6	583.9	584.6	584.5	585.4	586.5	586.5	586.5	586.5	586.5

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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- (3) Sell – 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.

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