



September 24, 2014

CURRENT PRICE: \$68.11
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.5%

EPS Estimates - Non-GAAP

	DEC 13A	DEC 14E
1Q	\$0.83	\$1.04A
2Q	\$0.62	\$0.62A
3Q	\$1.00	\$1.05
4Q	\$0.80	\$0.82
	\$3.25	\$3.53

Trading Data

52-WEEK PRICE RANGE: **\$73.75-\$61.36**
SHARES OUTSTANDING: **583.9(M)**
MARKET CAP: **\$39,769(M)**
AVG. DAILY TRADING VOLUME: **1.91(M)**
S&P 500: **1,998**

Valuation Data

BOOK VALUE: **\$19.80**
PRICE TO BOOK: **3.44x**
DIVIDEND: **\$2.40**

Dominion Resources (NYSE: D)

2Q14 Results-Flat Earnings

Highlights

- 2Q14 earnings \$0.62/share vs. \$0.62/share during 2Q13
- Operating income improved at DVP
- Announced Atlantic Coast pipeline joint venture
- Maintains 2014 operating earnings guidance of \$3.35-\$3.65/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 2.5 million customers in VA/NC, and 1.5 million un-regulated retail energy customer accounts in 10 states. Dominion Generation (DG) operates the electric generation plants for D. This unit has 23,600 megawatts of generation capacity and 83% of this generation goes to D's regulated electric customers in VA/NC with the remaining 17% 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 \$2.40/share and operating earnings for 2013 improved to \$3.25/share from \$3.05/share during 2012.

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.



EQUITY RESEARCH

Recent Earnings

D reported 2Q14 operating earnings of \$0.62/share vs. \$0.62/share during 2Q13. 2Q14's results were in the upper-half of management's guidance of \$0.55-\$0.66/share during 2Q14. DVP's EBIT increased to \$243 million from \$221 million due mainly to an increase in revenues (+\$5 million) and lower expenses (-\$4 million). DE's EBIT rose to \$215 million from \$201 million from higher revenues (+\$52 million) and Other income (+\$18 million), partly offset by higher operating expenses (+\$56 million). DG's EBIT decreased to \$306 million from \$333 million as lower operating expenses (-\$178 million) were not enough to offset declines in revenues (-\$197 million) and other income (-\$8 million). GAAP earnings for 2Q14 were \$0.27/share vs. \$0.35/share during 2Q13. The difference in operating and GAAP earnings were due mainly to the \$191 million charge related the Virginia legislation (signed this past April). This legislation allows Va. Power permits to recover 70% of the cost (from base rates) previously deferred or capitalized through the end of 2013 related to the development of the third nuclear reactor at D's North Anna plan and the development of offshore wind facilities.

SEGMENT RESULTS

DVP's operating income rose to \$227 million from \$208 million as revenues rose to \$450 million from \$435 million and operating expenses decreased to \$223 million from \$227 million. Other operations/maintenance expense decreased to \$227 million from \$208 million, and was partly offset by increases in depreciation/depletion/amortization expense (+\$7 million), and Other taxes (+\$2 million). Other income rose to \$16 million from \$13 million, EBIT increased to \$243 million from \$221 million, and earnings attributable to D's overall earnings were flat at \$0.20/share. Total delivered retail electrical GWh grew 1% to 18,510 GWh from 18,377 GWh as residential decreased 1.2% to 6,460 GWh, Industrial rose 9.1% to 2,179 GWh, while Commercial and Government were flat, at 7,228 GWh and 2,642, respectively.

DE's operating income decreased to \$192 million from \$196 million as an increase in revenues, to \$681 million from \$629 million (from higher transportation/storage revenues), were not enough to offset operating expenses rising to \$489 million from \$433 million. Higher revenues were due to higher transportation/storage revenues. The rise in operating expenses came from increased purchased gas (+\$69 million), other operations/maintenance (+\$3 million), and Other taxes (+\$3 million). These were partly offset by decreases in electric fuel/other energy-related purchases (-\$16 million) and depreciation/depletion/amortization (-\$3 million). EBIT rose to \$215 million from \$201 million benefiting from higher Other income (+\$18 million). Total LDC natural gas deliveries rose 10.1% to 61,212 mmcf as Other increased over eleven fold, more than offsetting declines in residential (-5.0%), commercial (-4.1%), and industrial (-3.5%). Contributions to Ds' overall earnings increased to \$0.22/share from \$0.21/share.

DG reported operating income of \$294 million vs. \$313 million as a decline in operating expenses was unable to offset decreases in operating revenues. Revenues were negatively impacted by milder-than-normal weather and decreased to \$1.70 billion from \$1.90 billion. Operating expenses fell to \$1.41 billion from \$1.59 billion as the category saw decreases in electric fuel/other energy-related purchases (-\$202 million), purchased



electric capacity (-\$1 million), purchased gas (-\$9 million), and other taxes (-\$7 million). These were partly offset by increases in other operations/maintenance expense (+\$40 million) and depreciation/depletion/amortization (+\$1 million). EBIT decreased to \$306 million from \$333 million. DG's sold natural gas volumes sold decreased 20.2% to 13,812 mmcf. The contribution towards D's overall earnings declined to \$0.27/share from \$0.32/share.

RECENT DEVELOPMENTS

D announced its subsidiary, Virginia Electric & Power Company, announced it was calling-in the entire all shares of its \$5.00 Dividend Preferred Stock (VEL PrE-NYSE). The redemption price will be \$112.50./share, plus accrued and unpaid dividends, on 10/24/14.

The company agreed to acquire two solar energy projects in California (CA) with an expected closing date in 2015. These two projects will produce 42 megawatts and are owned by EDF Renewable Energy. The solar sites are located in Kern, Kings, and Marin counties in CA.

DVP announced it has selected Capital One's Chester facility to install a ground-mounted solar panel installation in Central Virginia. The installation will contain 2,500 solar panels and is expected to generate about 500 KWh (at peak) of electricity to approximately 125 homes.

D announced plans to enter into a joint venture with Duke Energy (DUK-\$73.71), Piedmont Energy (PNY-\$34), and AGL Resources (ATG-\$51.34), to build/own a proposed Mid-Atlantic Coast natural gas pipeline. The cost would be approximately \$4.5 billion-\$5 billion and potentially bring 1.5 billion cubic feet of natural gas/day to NC and VA. If approved, the pipeline could be operational by 2018. It will be a 550-mile pipeline and will run through WVA, NC, & VA. D will build and operate the pipeline on behalf of the joint venture, while holding a 45% ownership stake. DUK will have 40% ownership with PNY and ATG holding 10% and 5% stakes, respectively.



Our Thoughts

D reported flat earnings as 2Q14's operating earnings were \$0.62/share, the same results as those of 2Q13. While DVP saw an increase in operating income (\$227 million vs. \$208 million), DE's declined (\$192 million vs. \$196 million) as did DG's (\$294 million vs. \$313 million). Overall results were impacted by milder-than-normal weather. However, the company is adding several non-regulated businesses into its portfolio, which they hope, will help grow future annual earnings by 5%-6%. The largest of these are the Cove Point LNG facility and the proposed Atlantic Coast pipeline. While Wall Street appears to give the company the "benefit of the doubt" on this eventuality we are taking a "wait and see" approach. This, in our opinion, is warranted given D is trading at 3.44x book value per share, the highest ratio amongst its industry peers. We rate this stock a HOLD.

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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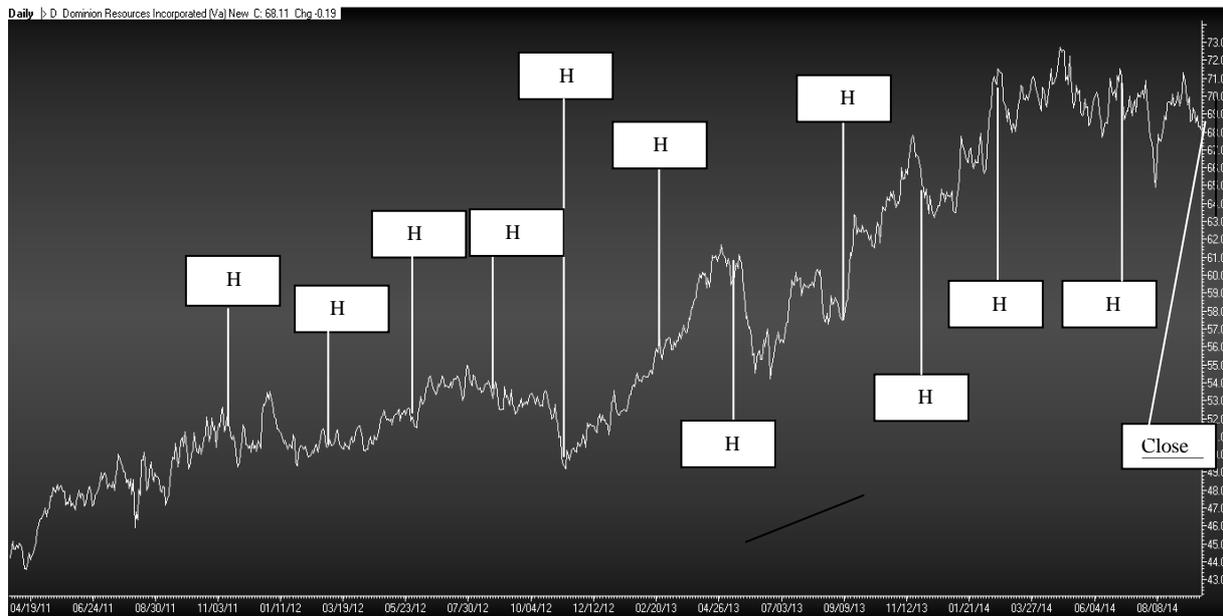


EQUITY RESEARCH

Dominion Resources
(in millions, except per share data)

	1Q13	2Q13	3Q13	4Q13	FY13	1Q14	2Q14	3Q14e	4Q14e	FY14e
Operating Revenue	\$3,475	\$ 2,961	\$3,439	\$3,234	\$13,109	\$3,631	\$2,813	\$3,518	\$3,295	\$13,157
Operating Expenses										
Electric fuel/other energy-related purchases	950	851	1,107	952	3,860	898	633	1,094	955	3,580
Purchased electric capacity	88	88	91	91	358	88	87	92	92	359
Purchased gas	467	283	220	326	1,298	533	324	214	331	1,402
Other operations & maintenance	569	594	507	583	2,253	512	626	539	578	2,255
Depreciation, depletion, & amortization	297	303	309	298	1,207	307	308	312	294	1,221
Other taxes	183	139	134	120	556	160	134	126	117	537
Total operating expenses	2,534	2,258	2,368	2,370	9,530	2,498	2,112	2,377	2,367	9,354
Income from operations	941	703	1,071	864	3,579	1,133	701	1,141	928	3,903
Other income	44	37	28	36	145	26	51	29	45	151
Income before interest & income taxes	985	740	1,099	900	3,724	1,159	752	1,170	973	4,054
Interest & related charges	226	201	217	226	870	236	226	235	239	936
Income before income taxes	759	539	882	674	2,854	923	526	935	734	3,118
Income taxes	276	178	293	203	950	310	163	318	250	1,041
noncontrolling interests	7	6	6	4	23	6	2	6	5	19
Operating Earnings	\$476	\$355	\$583	\$467	\$1,881	\$607	\$361	\$611	\$479	\$2,058
Operating Earnings per Share	\$0.83	\$0.62	\$1.00	\$0.80	\$3.25	\$1.04	\$0.62	\$1.05	\$0.82	\$3.53
Items excluded from operating earnings (net of taxes)	-19	-153	-14	-36	-184	-288	-203	-82	-27	-600
Reported Net Income	\$495	\$202	\$569	\$431	\$1,697	\$379	\$158	\$529	\$452	\$1,518
Reported Earnings Per Common Share-Diluted	\$0.86	\$0.35	\$0.98	\$0.74	\$2.93	\$0.65	\$0.27	\$0.91	\$0.78	\$2.61
Average shares outstanding, diluted	577.5	578.9	580.1	581.3	579.5	581.6	583.9	583.9	583.9	583.9

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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- (2) Hold – 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) 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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