



December 15, 2014

CURRENT PRICE: \$71.98
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.3%

EPS Estimates - Non-GAAP

	DEC 13A	DEC 14E
1Q	\$0.83	\$1.04A
2Q	\$0.62	\$0.62A
3Q	\$1.00	\$0.93A
4Q	\$0.80	\$0.82
	\$3.25	\$3.41

Trading Data

52-WEEK PRICE RANGE: **\$74.59-\$63.13**
 SHARES OUTSTANDING: **584.6(M)**
 MARKET CAP: **\$42,080(M)**
 AVG. DAILY TRADING VOLUME: **2.66(M)**
 S&P 500: **1,989**

Valuation Data

BOOK VALUE: **\$19.61**
 PRICE TO BOOK: **3.67x**
 DIVIDEND: **\$2.40**

Dominion Resources (NYSE: D)

3Q14 Earnings Results

Highlights

- 3Q14 operating earnings \$0.93/share vs. \$1.00/share during 3Q13
- Results impacted by mild weather
- Completed Dominion Midstream (DM-\$32.95) IPO
- Maintained 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.

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EQUITY RESEARCH

Recent Earnings

D reported 3Q14 operating earnings of \$0.93/share vs. \$1.00 during 3Q13. The decrease was due mainly to the milder weather in the company's operating territory. DVP's EBIT increased to \$248 million from \$236 million as higher revenues (+\$13 million) outpaced increased operating expenses (+\$4 million). DE's EBIT declined to \$236 million from \$289 million from a decrease in revenues (-\$39 million) and an increase in operating expenses (+\$17 million). DG's EBIT decreased to \$572 million from \$584 million as declines in operating expenses (-\$334 million) were unable to offset a decrease in revenues (-\$347 million). GAAP earnings, on a quarter-to-quarter comparison, fell to \$0.90/share from \$0.98/share. The difference between GAAP earnings and operating earnings was due to a charge related to costs associated with a potential third unit at D's North Anna power station, partly offset by higher returns from the company's nuclear decommissioning trusts.

SEGMENT RESULTS

DVP's operating income rose to \$248 million from \$236 million as revenues increased to \$484 million from \$471 million, offsetting a rise in operating expenses to \$252 million from \$248 million. Management noted kilowatt hour sales were below their expectations. On the expense side, increases in depreciation, depletion, & amortization (+\$9 million) and other taxes (+\$1 million) were partly offset by a decrease in other operations/maintenance expenses (-\$6 million). Other income rose to \$16 million from \$13 million and EBIT increased to \$248 million from \$236 million. Total delivered retail electrical GWh declined 1% to 20,916 GWh from 21,111 GWh as residential fell 2.4% to 7,862 GWh, government decreased 2.4% to 2,805 GWh, and commercial declined 1% to 7,969 GWh. Partly offsetting these declines was an increase in industrial, rising 5.9% to 2,280 GWh. DVP's overall earnings contribution decreased to \$0.20/share from \$0.21/share.

DE's operating income declined to \$223 million from \$279 million caused by a decrease in revenues, to \$603 million from \$642 million, and an increase in operating expenses, to \$380 million from \$363 million. The largest gains on the expense side came from other operations/maintenance (+\$67 million) and other taxes (+\$4 million). These were partly offset by a decrease in electric fuel/other energy-related purchases (-\$30 million) and purchased gas (-\$15 million). Other income rose to \$13 million from \$10 million and EBIT fell to \$236 million from \$289 million. Total LDC natural gas deliveries rose over 39% as Other increased over six-fold, and higher deliveries for residential (+1.3%), commercial (+10.1%), and industrial (+43.2%). DE's overall earnings contribution fell to \$0.25/share from \$0.29/share.

DG's operating income fell to \$560 million from \$573 million as a decline in operating expenses, to \$1.44 billion from \$1.77 billion, was unable to offset a decline in revenues, to \$2.0 billion from \$2.34 billion. The overall decrease in operating expenses came from lower electric fuel/other energy-related purchases (-\$333 million), purchased electric capacity (-\$5 million), depreciation/depletion/amortization (-\$2 million), and other taxes (-\$17 million). These were partly offset by higher purchased gas (+\$21 million) and other operations/maintenance (+\$2 million). EBIT declined to \$572 million from \$584 million as management attributed the decrease to lower kilowatt hour sales,



ancillary service revenues, and merchant generation margins. DG's natural gas volumes sold declined 14.8% to 8,866 mmcf. DG's overall earnings contribution decreased to \$0.56/share from \$0.58/share.

RECENT DEVELOPMENTS

During 3Q14 D issued \$1 billion of mandatory securities. The company exchanged \$1.2 billion of 144-A Dominion Gas Holdings bonds for registered securities. Management anticipates another debt offering, about \$1 billion, for Dominion Gas during 4Q14. D redeemed \$685 million of hybrid junior subordinated debt and replaced it with a similar security paying a lower rate, potentially saving the company \$18 million in annual interest expense. Additionally, \$134 million of Virginia Electric & Power Company preferred stock was redeemed during the quarter. Management successfully completed the Dominion Midstream Partners MLP (DM-\$32.95) in October. Net proceeds were approximately \$400 million and will be employed to help fund construction of the Cove Point Liquefaction Project in MD.

Construction of the Warren County combined cycle plant continues on schedule and budget. D began start up and commissioning activities for this plant. The Brunswick County combined cycle facility is approximately 35% complete and is expected to be in commercial operation by mid-2016. The Cove Point project received court approval for construction/operation this past September. Projected costs for the building of Cove Point are approximately \$3.4 billion - \$3.8 billion with a target service date of late 2017.

D announced plans to enter into a joint venture with Duke Energy (DUK-\$81.14), Piedmont Energy (PNY-\$37.61), and AGL Resources (GAS-\$50.65), 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

Mild weather produced lower results as D reported 3Q14 operating earnings of \$0.93 vs. \$1.00/share during 3Q13. Only DVP's operating income rose while both DE and DG generated decreased quarterly results. There a lot of moving parts in the company's two non-regulated units (DE & DG), which management believes could produce annual earnings growth of 5%-6%. Wall Street will be curious to see how recent commodity price declines of oil/natural gas will affect D's ability to generate higher earnings in the future from these units. These answers may be given soon as D has scheduled an analyst conference in New York City in February 2015 and intends to update its business plan and prospects for future profitability. During the conference call D maintained 2014 operating earnings guidance of \$3.35-\$3.65/share. Given this stock trades at 21.x our 2014 earnings estimate of \$3.41/share, we continue to rate D 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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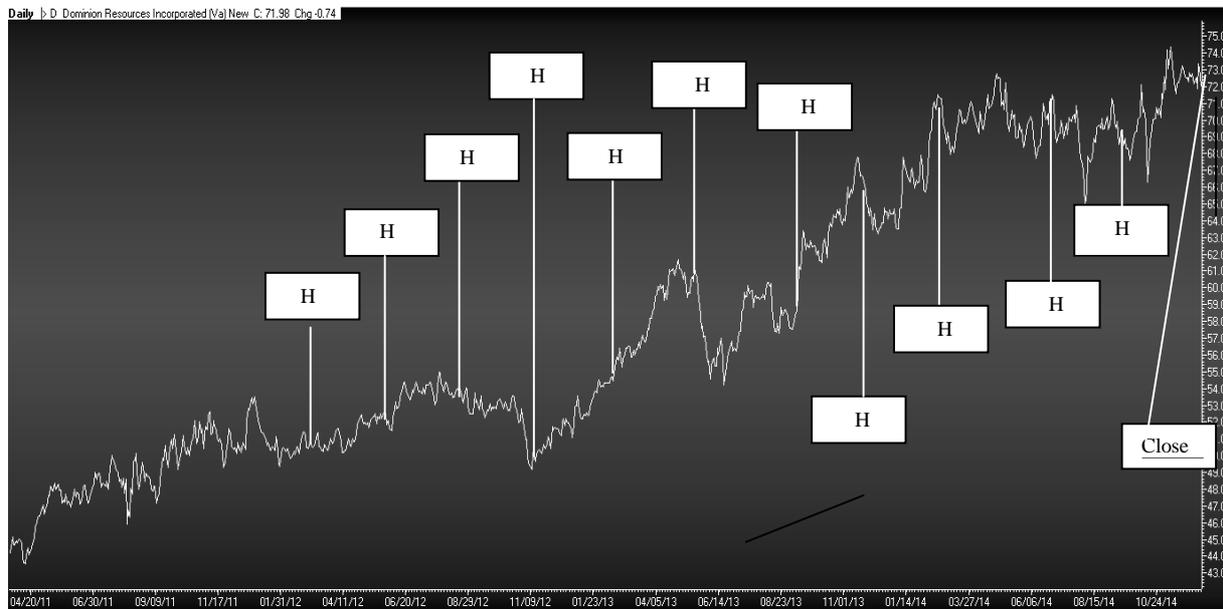


EQUITY RESEARCH

Dominion Resources
(in millions, except per share data)

	1Q13	2Q13	3Q13	4Q13	FY13	1Q14	2Q14	3Q14	4Q14e	FY14e
Operating Revenue	\$3,475	\$ 2,961	\$3,439	\$3,234	\$13,109	\$3,631	\$2,813	\$3,050	\$3,295	\$12,789
Operating Expenses										
Electric fuel/other energy-related purchases	950	851	1,107	952	3,860	898	633	743	955	3,229
Purchased electric capacity	88	88	91	91	358	88	87	86	92	347
Purchased gas	467	283	220	326	1,298	533	324	209	331	1,397
Other operations & maintenance	569	594	507	583	2,253	512	626	570	578	2,297
Depreciation, depletion, & amortization	297	303	309	298	1,207	307	308	317	294	1,226
Other taxes	183	139	134	120	556	160	134	123	117	534
Total operating expenses	2,534	2,258	2,368	2,370	9,530	2,498	2,112	2,048	2,367	9,023
Income from operations	941	703	1,071	864	3,579	1,133	701	1,002	928	3,762
Other income	44	37	28	36	145	26	51	39	45	161
Income before interest & income taxes	985	740	1,099	900	3,724	1,159	752	1,041	973	3,325
Interest & related charges	226	201	217	226	870	236	226	228	239	1,185
Income before income taxes	759	539	882	674	2,854	923	526	813	734	2,398
Income taxes	276	178	293	203	950	310	163	266	250	989
noncontrolling interests	7	6	6	4	23	6	2	2	5	15
Operating Earnings	\$476	\$355	\$583	\$467	\$1,881	\$607	\$361	\$545	\$479	\$1,992
Operating Earnings per Share	\$0.83	\$0.62	\$1.00	\$0.80	\$3.25	\$1.04	\$0.62	\$0.93	\$0.82	\$3.41
Items excluded from operating earnings (net of taxes)	-19	-153	-14	-36	-184	-288	-203	-19	-27	-537
Reported Net Income	\$495	\$202	\$569	\$431	\$1,697	\$379	\$158	\$526	\$452	\$1,515
Reported Earnings Per Common Share-Diluted	\$0.86	\$0.35	\$0.98	\$0.74	\$2.93	\$0.65	\$0.27	\$0.90	\$0.78	\$2.60
Average shares outstanding, diluted	577.5	578.9	580.1	581.3	579.5	581.6	583.9	584.6	584.6	584.6

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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