



August 28, 2015

CURRENT PRICE: \$71.03
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.7%

EPS Estimates - Non-GAAP

	DEC 14A	DEC 15E
1Q	\$1.04	\$0.99A
2Q	\$0.62	\$0.73A
3Q	\$0.93	\$1.06
4Q	\$0.84	\$0.98
	\$3.43	\$3.76

Trading Data

52-WEEK PRICE RANGE: **\$80.89-\$65.53**
 SHARES OUTSTANDING: **592.5(M)**
 MARKET CAP: **\$42,103(M)**
 AVG. DAILY TRADING VOLUME: **2.74(M)**
 S&P 500: **1,998**

Valuation Data

BOOK VALUE: **\$20.84**
 PRICE TO BOOK: **3.41x**
 DIVIDEND: **\$2.59**

Dominion Resources (NYSE: D)

Reports 2Q15 earnings results

Highlights

- 2Q15 operating earnings \$0.73/share vs. \$0.62/share during 2Q14
- Improved operating results at DG
- May consider acquisitions in depressed MLP asset sector
- Non-reg energy assets contributing to D's profit stream
- 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 24,600 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 12,200 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 2Q15 operating earnings of \$0.73/share vs. \$0.62/share during 2Q14. The improvement was due to the absence of an expected refueling outage at the Millstone Power Station, contributions from new projects, and comparatively warmer weather. These positives were partly offset by higher operating expenses. DG's contribution to overall earnings rose to \$0.42/share from \$0.27/share, while both DVP's and DE's were flat at \$0.20/share and \$0.22/share, respectively. When comparing the two quarters, operating revenues declined to \$2.75 billion, from \$2.81 billion, and total operating expenses fell to \$1.93 billion from \$2.11 billion. 2Q15's GAAP earnings rose to \$0.70/share from \$0.24/share. 1H15's operating earnings rose to \$1.71/share from \$1.66/share and GAAP earnings increased to \$1.61/share from \$0.92/share.

SEGMENT RESULTS

DVP'S 2Q15 operating income increased to \$236 million from \$227 million during 2Q14. This occurred as a rise in operating income (\$505 million from \$450 million) outpaced higher operating expenses (\$269 million vs. \$223 million). The higher operating expenses came from increases in other operations/maintenance (+\$34 million), DD&A (+\$9 million), other taxes (+\$2 million), and electric fuel/other energy related purchases (+\$1 million). DVP's contribution to D's overall earnings was flat at \$0.20/share.

Total delivered retail electric GWh rose 4.1% to 19,274 GWh with increases in residential (+3.5%), commercial (+3.1%), industrial (+10.3%), and governmental (+1.3%). Wholesale/sales for resale GWh decreased to 823 GWh from 829 GWh.

DE's operating income rose to \$204 million during 2Q15 from \$192 million recorded in 2Q14. The improvement was due a decline in operating expenses (\$352 million vs. \$489 million) and more than offset a decrease in revenues (\$556 million vs. \$681 million). Lower operating expenses and higher gas distribution margins helped operating results. The decrease in operating expenses came from lower purchased gas expense (\$91 million vs. \$255 million) and was partly offset by a rise in other operations/maintenance expense (\$144 million vs. \$127 million), DD&A (\$64 million vs. \$58 million), and other taxes (\$46 million vs. \$42 million). Other income fell to \$17 million from \$23 million. DE's contribution to D's overall earnings was flat at \$0.22/share.

Regulated gas revenues decreased to \$31 million from \$40 million while total gas transportation/storage revenue rose to \$134 million from \$114 million. Total LDC natural gas deliveries increased to 93,443 mmcf from 61,212 mmcf produced by higher deliveries from Other (42,911 mmcf vs. 8,531 mmcf) and industrial (28,141 mmcf vs. 27,801 mmcf). The large increase in others was due to D's non-regulated energy ventures coming online during 2Q15. These were partly offset by lower results from residential (13,852 mmcf vs. 15,719 mmcf) and commercial (8,539 mmcf vs. 9,161 mmcf).



EQUITY RESEARCH

DG's operating income improved to \$391 million from \$294 million when comparing 2Q15 with 2Q14. The improvement was due to favorable weather conditions in utility generation and lower operating expenses in the merchant generation business. Operating revenues rose to \$1.71 billion from \$1.70 billion and total operating expenses fell to \$1.32 billion from \$1.41 billion. The decrease in lower operating expenses resulted from lower electric fuel/other energy related purchases (\$574 million vs. \$621 million), purchased gas (\$50 million vs. \$89 million), other operations/maintenance (\$420 million vs. \$433 million), and other taxes (\$45 million vs. \$52 million). These were partly offset by higher purchased electric capacity (\$90 million vs. \$87 million) and DD&A (\$142 million vs. \$128 million). DG's contribution to D's overall earnings rose to \$0.42/share from \$0.27/share.

DG's merchant generation total electric sales to NEPOOL Merchant fleet increased to 4,920 GWh from 3,737 GWh, while PJM Merchant Fleet sales decreased to 1,274 GWh from 1,781 GWh. Natural gas sales rose to 13,998 mmcf from 13,812 mmcf.

RECENT DEVELOPMENTS

During 2Q15 Dominion Midstream (DM-\$37.09) acquired Dominion Gas Transmission from Dominion Resources.

D raised approximately \$500 million through the sale of \$6.8 million shares of its common stock. Additionally, Virginia Power issued \$700 million in debt through two tranches and Dominion issued \$500 million in three-year notes.

The company said the construction of its 1,358-megawatt combined cycle facility in Brunswick County is three-quarters complete as of 6/30/15.

A request for a CPCN and Rate Rider for D's proposed 1,588-megawatt Greenville County project was filed on 7/1/15. If approved the company believes this facility could be in commercial operation by 4Q18.

During 2Q15 five contracted merchant solar projects were placed into service totaling 81 megawatts. An additional 90 megawatts have been acquired, or, are under construction for completion by year end 2015. D also acquired a 50% interest in a 320-megawatt solar facility being built in Utah.

D reported its Cove Point LNG facility is approximately 31% complete and on-budget, and expects it to be finished according to schedule.



Our Thoughts

D reported 2Q15 operating earnings of \$0.73/share vs. \$0.64 during 2Q14. The increase came from improved Generation unit results which contributed \$0.42/share to D's overall earnings during 2Q15 vs. \$0.27/share during 2Q14. The other two units' (Dominion Energy & Dominion Virginia Power) contributions were flat. During the quarterly earnings conference call management noted its non-regulated energy units were beginning to add to D's profit stream and expect more in the future. Further, D mentioned the possibility of making acquisitions in the MLP sector given the dramatic downturn in asset valuations in that area. Management affirmed 3Q15 operating earnings guidance of \$0.95-\$1.10/share in earnings despite the likelihood of rising operating costs during 2H15. We continue to rate D a HOLD given it is trading at 20x our 2015 earnings estimate.

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	1Q15	2Q15	3Q15e	4Q15e	FY15e
Operating Revenue	\$3,631	\$2,813	\$3,050	\$2,972	\$12,466	\$3,427	\$2,747	\$3,607	\$3,659	\$13,440
Operating Expenses										
Electric fuel/other energy-related purchases	898	633	743	690	2,964	868	591	1,063	1,108	3,628
Purchased electric capacity	88	87	86	100	361	94	90	96	97	377
Purchased gas	533	324	209	281	1,347	250	111	227	286	874
Other operations & maintenance	512	626	570	629	2,337	602	664	565	584	2,415
Depreciation, depletion, & amortization	307	308	317	322	1,254	343	339	319	293	1,294
Other taxes	160	134	123	116	535	185	134	154	163	618
Total operating expenses	2,498	2,112	2,048	2,140	8,798	2,322	1,929	2,424	2,531	9,206
Income from operations	1,133	701	1,002	832	3,668	1,105	818	1,183	1,128	4,234
Other income	26	51	39	67	183	33	31	44	25	133
Income before interest & income taxes	1,159	752	1,041	899	3,851	1,138	856	1,227	1,153	4,374
Interest & related charges	236	226	228	217	907	223	221	246	242	932
Income before income taxes	923	526	813	682	2,944	915	635	981	911	3,442
Income taxes	310	163	266	196	925	327	201	353	335	1,216
noncontrolling interests	6	2	2	6	16	4	5	4	4	17
Operating Earnings	\$607	\$361	\$545	\$490	\$2,003	\$584	\$429	\$624	\$572	\$2,209
Operating Earnings per Share	\$1.04	\$0.62	\$0.93	\$0.84	\$3.43	\$0.99	\$0.73	\$1.06	\$0.98	\$3.76
Items excluded from operating earnings (net of taxes)	-288	-203	-19	-247	-693	-48	-16	-189	-58	-311
Reported Net Income	\$379	\$158	\$526	\$243	\$1,310	\$536	\$413	\$435	\$514	\$1,898
Reported Earnings Per Common Share-Diluted	\$0.65	\$0.27	\$0.90	\$0.42	\$2.24	\$0.91	\$0.70	\$0.74	\$0.88	\$3.23
Average shares outstanding, diluted	581.6	583.9	584.6	584.5	585.4	589.9	592.5	592.5	592.5	592.5

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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- (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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