



**December 30, 2015**

**CURRENT PRICE:** \$68.68  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 3.8%

**EPS Estimates - Non-GAAP**

	DEC 14A	DEC 15E
1Q	\$1.04	\$0.99A
2Q	\$0.62	\$0.73A
3Q	\$0.93	\$1.03A
4Q	\$0.84	\$0.98
	<b>\$3.43</b>	<b>\$3.73</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$80.14-\$64.54**  
 SHARES OUTSTANDING: **595.5(M)**  
 MARKET CAP: **\$40,899(M)**  
 AVG. DAILY TRADING VOLUME: **2.74(M)**  
 S&P 500: **2,063**

**Valuation Data**

BOOK VALUE: **\$21.13**  
 PRICE TO BOOK: **3.25x**  
 DIVIDEND: **\$2.80**

**Dominion Resources (NYSE: D)**

*Reports 3Q15 earnings results*

**Highlights**

- 3Q15 operating earnings \$1.03/share vs. \$0.93/share during 3Q14
- Improved operating results at DVP, DE, & DG
- Increased annual dividend to \$2.80/share
- Affirms 2015 operating earnings 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 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 10,900 miles of natural gas transmission, gathering and storage pipelines. Since 2003 the dividend has grown from \$1.29/share to \$2.80/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 3Q15 operating income of \$1.03/share vs. \$0.93/share. The increase in earnings was due to a return to normal weather in its service territory, earnings from farm-out transactions, and lower growth of operating expenses. All three operating units saw increases in their respective contributions to overall earnings. DVP's increased to \$0.21/share from \$0.20/share, DE's grew to \$0.26/share from \$0.25/share, and DG's improved to \$0.21/share from \$0.20/share. When comparing the two quarters, operating revenues decreased to \$2.98 billion from \$3.05 billion, total expenses declined to \$1.85 billion from \$2.13 billion, allowing operating income to rise to \$1.12 billion from \$921 million. 3Q15's GAAP earnings were \$1.00/share from \$0.90/share as a decline in revenues were more than offset by a larger decline in operating expenses.

## SEGMENT RESULTS

DVP's 3Q15 operating income rose to \$252 million from \$232 million during 3Q14. This occurred as operating revenue improved to \$543 million from \$484 million and operating expenses rose to \$291 million from \$252 million. The higher expenses were the result of increased other operations/maintenance (+\$27 million), DD&A (+\$8 million), and other taxes (+\$4 million). DVP's contribution to D's overall earnings rose to \$0.21/share from \$0.20/share.

Total delivered retail electric GWh increased 4.0% to 21,743 GWh due to higher residential (+6.2%), commercial (+3.4%), industrial (+1.6%), and government (+1.0%) deliveries. Wholesale/sales for resale GWh decreased to 891 GWh from 1,003 GWh.

DE's operating income during 3Q15 increased to \$249 million from 3Q14's \$223 million. The improvement came from lower operating expenses offsetting a decline in revenues, and higher gas distribution margins. Operating revenues decreased to \$530 million from \$603 million and operating expenses fell to \$281 million from \$380 million. The operating expense decrease came from lower electric fuel/other energy-related purchases (-\$2 million), purchased gas (-\$87 million), and other operations/maintenance (-\$19 million). These were partly offset by higher DD&A (+\$6 million) and other taxes (+\$4 million). DE's contribution to overall earnings rose to \$0.26/share from \$0.25/share.

Regulated gas revenues decreased to \$21 million from \$24 million, while total gas transportation/storage revenue rose to \$118 million from \$109 million. Total LDC natural gas deliveries increased to 90,017 mmcf from 57,342 mmcf. This resulted from higher deliveries by Other (49,765 mmcf vs. 13,785 mmcf) as D's non-regulated energy ventures came online during 2Q15, raising through-put. The increase was partly offset by lower residential (6,153 mmcf vs. 7,078 mmcf), commercial (5,125 mmcf vs. 5,459 mmcf), and industrial (28,974 mmcf vs. 31,020 mmcf).



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DG's 3Q15 operating income rose to \$635 million from \$560 million due to lower operating expenses and higher merchant generation margins. Operating revenues declined to \$1.93 billion from \$2.0 billion and was more than offset by a decrease in operating revenues to \$1.30 billion from \$1.44 billion. Lower operating expenses came from electric fuel/other energy-related purchases (-\$105 million), purchased electric capacity (-\$11 million), purchased gas (-\$40 million), and other operations/maintenance (-\$8 million). These declines were partly offset by higher DD&A (+\$23 million) and other taxes (+\$2 million). DG's contribution to overall earnings rose to \$0.66/share from \$0.56/share.

Corporate and Other include costs and expenses not attributable towards D three operating units. Total operating expenses for this segment decreased to \$138 million from \$157 million while total revenues decreased to \$133 million from \$144 million. This segment contributed (\$0.13)/share to D's overall earnings vs. (\$0.11)/share during last year's comparable quarter.

## RECENT DEVELOPMENTS

The Board of Directors raised D's annual dividend to \$2.80/share from \$2.59/share.

D stated construction of its 1,358 MW combined-cycle facility in Brunswick County is approximately 90% complete. This facility is on-time and on-budget and is expected to in commercial operation by mid-2016.

A 1/12/16 hearing is scheduled for D's request for a CPCN and rate-rider for the proposed 1,588 MW Greenville County three-on-one combined-cycle facility expected to be in operation by year-end 2018.

D continued purchasing merchant contract renewable facilities after acquiring a 50% interest in the 210 MW Tree Cedars Solar Project in Utah-scheduled for operational service in 2016.

This past September D signed an agreement to sell its 33% interest in 425 MW of renewable merchant generation to SunEdison for approximately \$300 million.

During November D was awarded a 10-year energy sales agreement with the US Navy to supply the Norfolk VA Naval station. The Navy has an option to extend the purchase agreement for another 10 years. Power for this agreement will be provided by a NC 20 MW solar facility.

DE closed on its first farm-out of Utica acreage in September with an agreement covering approximately 16,000 acres.

Regarding the Atlantic Coast pipeline, D made formal FERC filings for the pipeline and the related supply headed project. Surveying is 85% complete and engineering is 75% complete according to D with plans to begin construction in 4Q16.



D said its Cove Point Liquefaction project is 47% complete and is on schedule to be completed and on budget for a in-service date of late 2017.

## Our Thoughts

A good earnings release from D as it reported 3Q15 operating earnings of \$1.03/share vs. \$0.93/share during 3Q14. The increase in earnings was due to a return to normal weather in its service territory, earnings from farm-out transactions, and slower operating expenses. All three of D's operating units added higher profits to overall earnings. DVP's increased to \$0.21/share from \$0.20/share, DE's grew to \$0.26/share from \$0.25/share, and DG's improved to \$0.21/share from \$0.20/share. 3Q15's GAAP earnings were \$1.00/share from \$0.90/share as a decline in revenues was more than offset by a larger decline in operating expenses. Furthermore, management confirmed 2015 operating earnings guidance of \$3.50-\$3.80/share, recently raised the annual dividend to \$2.80/share from \$2.59/share, and reiterated its goal of raising the dividend 8% per year. We continue to rate D a HOLD given its relative high book value per share of 3.25x book, one of the highest in the utility sector.



## 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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Capitol Securities Management  
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# EQUITY RESEARCH

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

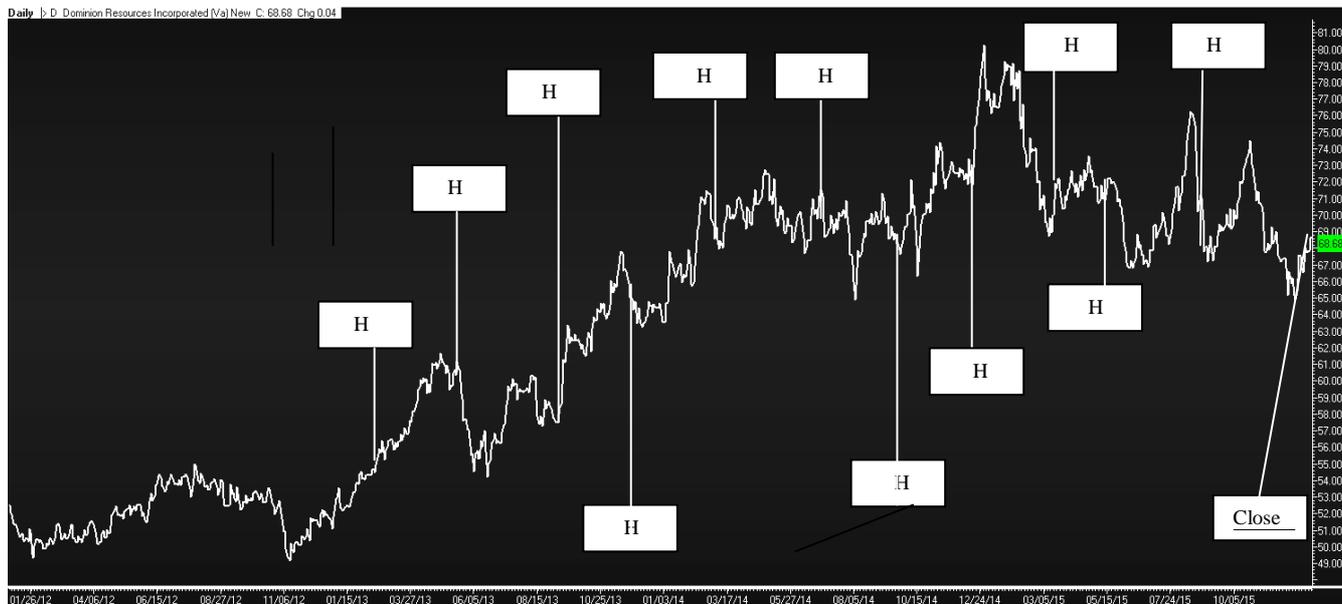
	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15	4Q15e	FY15e
<b>Operating Revenue</b>	\$3,631	\$2,813	\$3,050	\$2,972	\$12,466	\$3,427	\$2,747	\$2,976	\$3,659	\$12,809
<b>Operating Expenses</b>										
Electric fuel/other energy-related purchases	898	633	743	690	2,964	868	591	636	1,108	3,203
Purchased electric capacity	88	87	86	100	361	94	90	75	97	356
Purchased gas	533	324	209	281	1,347	250	111	85	286	732
Other operations & maintenance	512	626	570	629	2,337	602	664	562	584	2,412
Depreciation, depletion, & amortization	307	308	317	322	1,254	343	339	354	293	1,329
Other taxes	160	134	123	116	535	185	134	133	163	595
<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>1,929</b>	<b>1,845</b>	<b>2,531</b>	<b>8,027</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>818</b>	<b>1,131</b>	<b>1,128</b>	<b>4,182</b>
<b>Other income</b>	<b>26</b>	<b>51</b>	<b>39</b>	<b>67</b>	<b>183</b>	<b>33</b>	<b>31</b>	<b>19</b>	<b>25</b>	<b>108</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>856</b>	<b>1,150</b>	<b>1,153</b>	<b>4,297</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>221</b>	<b>227</b>	<b>242</b>	<b>913</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>635</b>	<b>923</b>	<b>911</b>	<b>3,384</b>
<b>Income taxes</b>	<b>310</b>	<b>163</b>	<b>266</b>	<b>196</b>	<b>925</b>	<b>327</b>	<b>201</b>	<b>306</b>	<b>335</b>	<b>1,169</b>
<b>noncontrolling interests</b>	<b>6</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>16</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>4</b>	<b>19</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>\$429</b>	<b>\$611</b>	<b>\$572</b>	<b>\$2,196</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>\$0.73</b>	<b>\$1.03</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>-16</b>	<b>-18</b>	<b>-58</b>	<b>-140</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>\$413</b>	<b>\$593</b>	<b>\$514</b>	<b>\$2,056</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>\$0.70</b>	<b>\$1.00</b>	<b>\$0.88</b>	<b>\$3.49</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>592.5</b>	<b>595.5</b>	<b>595.5</b>	<b>592.5</b>



# EQUITY RESEARCH

## Important Disclosures

Daily b D Dominion Resources Incorporated (Va) New C: 68.68 Chg 0.04



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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