



March 10, 2016

CURRENT PRICE: \$71.59
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.9%

EPS Estimates - Non-GAAP

	DEC 15A	DEC 16E
1Q	\$0.99	\$0.82
2Q	\$0.73	\$1.17
3Q	\$1.03	\$1.00
4Q	\$0.70	\$0.77
	\$3.45	\$3.76

Trading Data

52-WEEK PRICE RANGE: **\$76.59-\$64.54**
 SHARES OUTSTANDING: **595.3(M)**
 MARKET CAP: **\$42,618(M)**
 AVG. DAILY TRADING VOLUME: **3.28(M)**
 S&P 500: **1,990**

Valuation Data

BOOK VALUE: **\$21.20**
 PRICE TO BOOK: **3.38x**
 DIVIDEND: **\$2.80**

Dominion Resources (NYSE: D)

Reports 4-Q15 earnings results

Highlights

- 4Q15 operating earnings \$0.70/share vs. \$0.84/share during 4Q14
- Earnings hurt by warm winter weather
- Acquiring Questar for \$4.4 billion
- Provides 2016 operating earnings guidance of \$3.60-\$4.00/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 2015 improved to \$3.44/share from \$3.43/share during 2014.

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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Recent Earnings

D reported 4Q15 operating earnings of \$0.70/share vs. \$0.84/share during 4Q14. The decrease in earnings was due to warmer-than-normal winter weather, the absence of a farmout transaction, and impact of increased depreciation. All three of D's primary units contributed lower overall earnings towards overall profitability. When comparing the two quarters, operating revenues declined to \$2.58 billion from \$2.97 billion, total operating expenses fell to \$1.83 billion from \$2.14 billion, and overall EBIT decreased to \$802 million from \$899 million. FY15 operating earnings rose to \$3.44/share, from \$3.43/share during 2014, as revenues decreased to \$11.7 billion from \$12.5 billion and total operating expenses fell to \$7.92 billion from \$8.80 billion. D's 4Q15 GAAP earnings rose to \$0.60/share from \$0.42/share during 4Q14 and FY15's increased to \$3.20/share from FY14's \$2.24/share.

SEGMENT RESULTS

DVP's 4Q15 operating income decreased to \$225 million from \$247 million during 4Q14. This occurred as a decrease in operating revenues (\$494 million vs. \$498 million) was coupled with an increase in total operating expenses (\$269 million vs. \$251 million). The higher expenses were due to increases in Other operations/maintenance costs (\$108 million vs. \$102 million), DD&A (\$128 million vs. \$119 million), and other taxes (\$433 million vs. \$29 million). These were partly offset by a decline in electric fuel/other energy-related purchases (\$0 vs. \$1 million). DVP's overall earnings contribution decreased to \$0.18/share from \$0.23/share.

Total delivered retail electric GWh decreased to 17,504 GWh from 19,137 GWh due to the warm winter weather. There were decreases in the four main customer categories: residential (-15.7%), Governmental (-6.2%), Commercial (-3.9%), and Industrial (-3.4%). Wholesale resale of electricity rose to 799 GWh from 761 GWh.

DE's operating income during 4Q15 declined to \$251 million from \$333 million, during 4Q14 as a decrease in operating expenses was more than offset by a large drop in operating revenues. Operating expenses fell to \$361 million from \$499 million while operating revenues decreased to \$612 million from \$832 million. In the operating expense categories, electric fuel/other energy-related purchase declined by \$7 million and purchased gas decreased by \$165 million. These were partly offset by higher other operations/maintenance expense, +\$33 million, and DD&A, +\$1 million. Other taxes were flat at \$48 million. DE's contribution to overall earnings decreased to \$0.29/share from \$0.36/share.

Regulated gas revenues and regulated gas transportation/storage revenues declined to \$42 million from \$74 million and to \$132 million from \$146 million, respectively. LDC natural gas deliveries rose to 135,461 mmcf from 120,692 mmcf due to higher deliveries by Other (62,485 mmcf vs. 32,451 mmcf) as D's non-regulated energy ventures came online during 2Q15, raising through-put. This increase was partly offset by delivery decreases in residential (27,308 mmcf vs. 37,207 mmcf), commercial (13,951 mmcf vs. 18,734 mmcf), and industrial (31,717 mmcf vs. 32,299 mmcf).



DG reported 4Q15 operating of income of \$290 million vs. \$259 million during 4Q14 as a decrease in operating expenses more than offset a decline in operating revenues. Total operating expenses fell to \$1.18 billion from \$1.37 billion while operating revenues declined to \$1.47 billion from \$1.63 billion. DG's lower operating expense were due to declines in electric fuel/other energy-related purchases (-\$137 million), purchased electric capacity (-\$29 million), other operations/maintenance (-\$39 million). These were partly offset by a rise in DD&A (+\$21 million) while other taxes was flat. DG's overall earnings contribution declined to \$0.37/share from \$0.50/share mainly due to the absence of a 4Q14 tax benefit.

Corporate and other includes costs/expenses not attributable towards D three operating units. This segment's total operating expenses declined to \$156 million from \$164 million and revenues fell to \$144 million from \$157 million. The overall earnings contribution to D was (\$0.24)/share during 4Q15 vs. (\$0.67)/share during 4Q15, which included a \$40 million tax benefit.

RECENT DEVELOPMENTS

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

D announced it was acquiring Questar (STR-\$24.95) for approximately \$4.4 billion, including debt, and will expand the company's natural gas operations. STR, headquartered in Salt Lake City UT, has a regulated local distribution company serving approximately 1 million customers in Utah, Wyoming, and Idaho and 2,700 mile pipeline and gas storage facilities.

A \$9.5 billion investment will be made (\$2 billion/year) over the next 5 years in clean generation such as solar energy and expanding/securing/upgrading the electrical grid in Virginia and northeaster NC.

Construction of the 1,358-megawatt combined-cycle facility in Brunswick County is approximately 96% complete as of YE15 and is expected to be in commercial operation by mid-2016.

D's CPCN/rate rider hearing for the 1,588-megawatt Greenville County project was held on 1/12/16 with a decision from the VA SCC expected to be rendered in April 2016.

This past November D acquired and 80-megawatt project slated for construction, supported by PPA and Amazon (AMZN-\$558.93) on the Virginia Eastern shore and is expected to be operational by YE16.



During December D closed on the sale of a 33% ownership interest in 425 megawatts of solar production to SunEdison for approximately \$300 million.

The Cove Point liquefaction project is 56% complete and all 34 of the construction packages have been approved by FERC. D expects this facility to be in service by late 2017.

Our Thoughts

4Q15's operating earnings results were hurt primarily by the warm winter weather experienced by much of the US east coast. D reported 4Q15 operating earnings of \$0.70/share vs. \$0.84/share during 4Q14. All three of D's primary units contributed lower overall earnings towards overall profitability. FY15 operating earnings rose to \$3.44/share, from \$3.43/share during 2014, as revenues decreased to \$11.7 billion from \$12.5 billion and total operating expenses fell to \$7.92 billion from \$8.80 billion. D's 4Q15 GAAP earnings rose to \$0.60/share from \$0.42/share during 4Q14 and FY15's increased to \$3.20/share from FY14's \$2.24/share.

Shareholders should be pleased as D's Board of Directors raised the annual dividend to \$2.80/share from \$2.59/share, and reiterated its goal of raising the dividend 8% per year, based on earnings growth. To this end, D provided 2016 operating earnings guidance of \$3.60-\$4.00/share. While the stock pays an attractive dividend, D's shares possess a high valuation for a utility trading at 19x our 2016 earnings estimate of \$3.76/share. We continue to rate D a HOLD given its relative high book value per share of 3.38x 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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Dominion Resources
(in millions, except per share data)

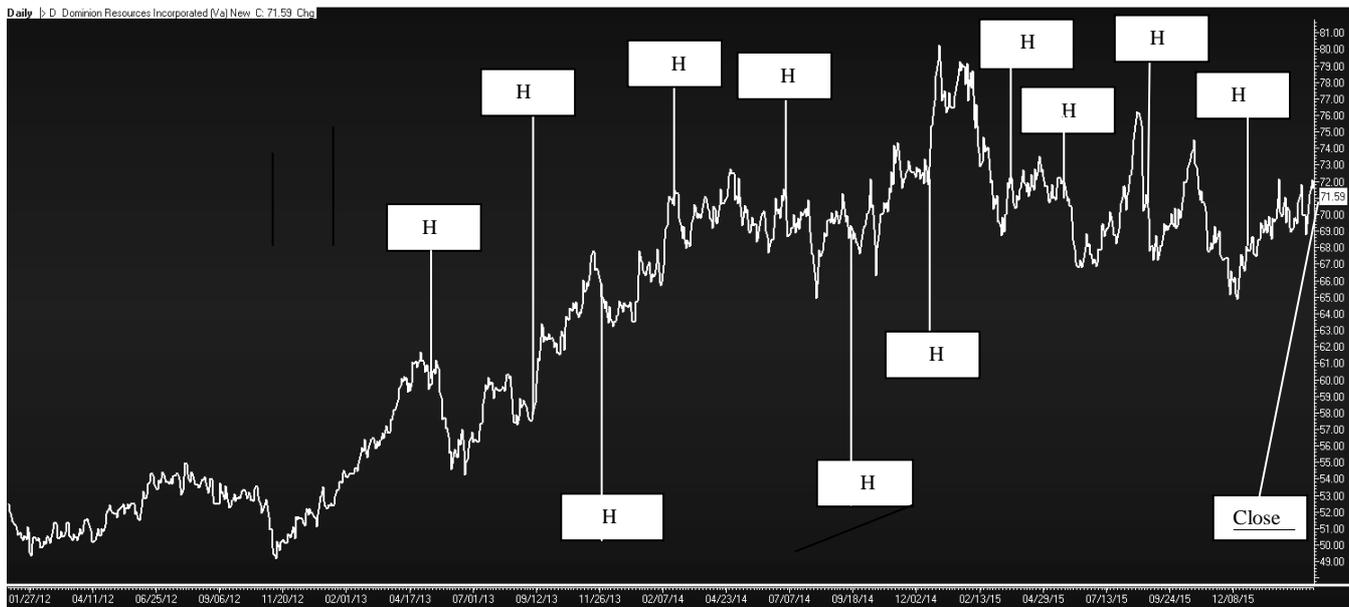
	1Q15	2Q15	3Q15	4Q15	FY15	1Q16e	2Q16e	3Q16e	4Q16e	FY16e
Operating Revenue	\$3,427	\$2,747	\$2,976	\$2,578	\$11,728	\$3,061	\$2,981	\$3,048	\$2,978	\$12,068
Operating Expenses										
Electric fuel/other energy-related purchases	868	591	636	545	2,640	821	593	643	745	2,802
Purchased electric capacity	94	90	75	71	330	84	91	76	82	333
Purchased gas	250	111	85	105	551	201	112	88	113	514
Other operations & maintenance	602	664	562	632	2,480	583	643	639	654	2,519
Depreciation, depletion, & amortization	343	339	354	353	1,389	322	334	356	368	1,319
Other taxes	165	134	133	119	551	126	139	141	125	532
Total operating expenses	2,322	1,929	1,845	1,825	7,921	2,139	1,911	1,943	2,088	8,081
Income from operations	1,105	818	1,131	753	3,807	922	1,070	1,105	890	3,987
Other income	33	31	19	49	139	43	24	16	28	111
Income before interest & income taxes	1,138	856	1,150	802	3,946	965	1,094	1,121	918	4,100
Interest & related charges	223	221	227	227	898	225	227	227	227	906
Income before income taxes	915	635	923	575	3,048	740	867	894	691	3,192
Income taxes	327	201	306	150	994	244	286	295	228	1,053
noncontrolling interests	4	5	6	9	24	5	6	5	4	20
Operating Earnings	\$584	\$429	\$611	\$416	\$2,040	\$491	\$695	\$594	\$459	\$2,239
Operating Earnings per Share	\$0.99	\$0.73	\$1.03	\$0.70	\$3.44	\$0.82	\$1.17	\$1.00	\$0.77	\$3.76
Items excluded from operating earnings (net of taxes)	-48	-16	-18	-58	141	25	-38	-42	32	-23
Reported Net Income	\$536	\$413	\$593	\$358	\$1,899	\$516	\$657	\$552	\$491	\$2,216
Reported Earnings Per Common Share-Diluted	\$0.91	\$0.70	\$1.00	\$0.60	\$3.20	\$0.87	\$1.10	\$0.93	\$0.83	\$3.73
Average shares outstanding, diluted	589.9	592.5	595.5	596.7	596.7	595.3	595.3	595.3	595.3	595.3



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Important Disclosures

Daily b D Dominion Resources Incorporated (Va) New C: 71.59 Chg



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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