



June 10, 2016

CURRENT PRICE: \$73.35
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.8%

EPS Estimates - Non-GAAP

| | DEC 15A | DEC 16E |
|----|---------------|---------------|
| 1Q | \$0.99 | \$0.96A |
| 2Q | \$0.73 | \$0.87 |
| 3Q | \$1.03 | \$1.00 |
| 4Q | \$0.70 | \$0.77 |
| | \$3.45 | \$3.60 |

Trading Data

52-WEEK PRICE RANGE: **\$76.59-\$64.54**
 SHARES OUTSTANDING: **598.2(M)**
 MARKET CAP: **\$43,878(M)**
 AVG. DAILY TRADING VOLUME: **2.56(M)**
 S&P 500: **2,096**

Valuation Data

BOOK VALUE: **\$21.44**
 PRICE TO BOOK: **3.42x**
 DIVIDEND: **\$2.80**

Dominion Resources (NYSE: D)

Reports 1Q16 earnings results

Highlights

- 1Q15 operating earnings \$0.96/share vs. \$0.99/share during 1Q15
- Earnings hurt by warm winter weather
- Issued stock in connection with the Westar purchase
- Affirmed 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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EQUITY RESEARCH

Recent Earnings

D reported operating earnings of \$0.96/share during 1Q16 vs. \$0.99/share during 1Q15. The decrease was due to mild winter weather during 1Q16 and the absence of a farm-out agreement partly offset by higher anticipated renewable energy investment tax credits. Both operating revenues and operating expenses declined to \$2.92 billion from \$3.43 billion, and \$1.97 billion from \$2.32 billion, respectively. Income from operations decreased to \$949 million from \$1.11 billion and EBIT fell to \$1.0 billion from \$1.14 billion. Operating income from all three of D's operating units were lower when comparing the two quarters. 1Q16 GAAP earnings declined to \$0.88/share from \$0.91/share during 1Q15.

SEGMENT RESULTS

DVP reported 1Q16 operating income of \$246 million vs. \$270 million during 1Q15. The decrease was due to warm winter weather in its service territory. Revenues fell to \$561 million from \$569 million while operating expense rose to \$315 million. Higher operating expenses were the result of increased other operations/maintenance (\$144 million vs. \$139 million), DD&A (\$130 million vs. \$121 million), and other taxes (\$40 million vs. \$38 million). EBIT fell to \$255 million from \$281 million. DVP's overall contributions to earnings decreased to \$0.20/share from \$0.24/share.

Total delivered retail electric GWh declined to 20,335 GWh from 22,016 GWh. There were delivery decreases in residential (-16.8%), Governmental (-4.6%), commercial (-0.4%), and was partly offset by an increase in industrial (+6.7%). Wholesale resale of electricity was flat at 5 GWh.

DE's 1Q16 operating income declined to \$282 million from \$368 million during 1Q15. This unit's operating revenues fell to \$663 million from \$846 million and operating expenses decreased to \$381 million from \$478 million. The decline in operating expenses came from electric fuel/other energy-related purchases (\$2 million vs. \$6 million), purchased gas (\$114 million vs. \$240 million), other taxes (\$60 million vs. \$66 million), and was partly offset by higher other operations/maintenance (\$141 million vs. \$102 million). DDA was flat at \$64 million. EBIT fell to \$313 million from \$382 million. DE's overall contribution to earnings declined to \$0.31/share from \$0.39/share.

Total regulated gas distribution revenues declined to \$65 million from \$109 million while regulated gas transportation/storage revenues fell to \$158 million from \$192 million. LDC's gas deliveries decreased to 171,384 mmcf from 178,378 mmcf due to declines in residential (52,379 mmcf vs. 68,122 mmcf), commercial (26,374 mmcf vs. 33,388 mmcf), industrial (38,075 mmcf vs. 39,392 mmcf) and were partly offset by an increase in other (54,556 mmcf vs. 37,476 mmcf).

DG reported 1Q16 operating income of \$430 million vs. \$481 million during 1Q15 as lower operating expenses were not enough to offset a decline in operating expenses. Operating revenues fell to \$1.70 billion from \$2.0 billion and operating expenses decreased to \$1.27 billion from \$1.51 billion. Operating expenses were lower due to lower



electric fuel/other energy-related expenses (-\$218 million), purchased electric capacity (-\$26 million), other operations/maintenance (-\$7 million), and other taxes (-\$2 million). These were partly offset by an increase in DD&A (+\$8 million). EBIT fell to \$453 million from \$494 million and DG's overall earnings contribution decreased to \$0.41/share from \$0.44/share. Total electric sales to the NEPOOL Merchant Fleet rose to 4,653 GWh, from 4,613 GWh, and PJM Merchant Fleet sales increased to 1,940 GWh, from 1,346 GWh.

“Corporate and Other” includes costs/expenses not attributable towards D three operating units. This segment's total operating expenses rose to \$204 million from \$161 million while revenues rose to \$195 million from \$147 million. The overall contribution towards overall earnings was \$0.04/share vs. (\$0.08)/share when comparing 1Q16 vs. 1Q15.

RECENT DEVELOPMENTS

D lost the Federal grant for its proposed Virginia offshore wind project with plans to install two 6 MW wind turbines off of VA Beach, VA. According to management, the loss of the \$40 million in funding makes the proposed project uneconomical. The funding cut occurred because D could not guarantee a start date before 2020.

The company announced it was selling 10.2 million common shares of stock through an underwriting offered by Citigroup. Proceeds will be used for general corporate purposes, including assisting in the planned acquisition of Questar (STR-\$25.04) for \$4.4 billion. The STR acquisition was announced this past March.

D announced it has purchase agreements for 96% of the gas deliveries for its proposed Atlantic Coast Pipeline. The 600-mile pipeline will deliver natural gas from fracking activities along a route from West VA, through VA, to NC.



Our Thoughts

Both operating earnings and GAAP earnings for 1Q16 were negatively impacted by warm winter weather when compared to the prior year's quarter. D's 1Q16 operating earnings decreased to \$0.96/share from \$0.99/share during 1Q15 and GAAP earnings fell to \$0.88/share from \$0.91/share. The big news of the quarter was D's announcement of its planned acquisition of STR. During the quarterly conference call D affirmed 2016 earnings guidance of \$3.60-\$4.00/share. Although not contiguous to its service territory, D believes this purchase will give it strategic natural gas assets which should benefit its overall energy portfolio. We continue to rate D a HOLD given its relative high book value per share of 3.4x book, one of the highest in the utility sector, and trading at 20.3x our 2016 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)

| | 1Q15 | 2Q15 | 3Q15 | 4Q15 | FY15 | 1Q16 | 2Q16e | 3Q16e | 4Q16e | FY16e |
|--|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|
| Operating Revenue | \$3,427 | \$2,747 | \$2,976 | \$2,578 | \$11,728 | \$2,921 | \$2,762 | \$3,048 | \$2,978 | \$11,709 |
| Operating Expenses | | | | | | | | | | |
| Electric fuel/other energy-related purchases | 868 | 591 | 636 | 545 | 2,640 | 634 | 593 | 643 | 745 | 2,615 |
| Purchased electric capacity | 94 | 90 | 75 | 71 | 330 | 68 | 61 | 76 | 82 | 287 |
| Purchased gas | 250 | 111 | 85 | 105 | 551 | 119 | 102 | 88 | 113 | 422 |
| Other operations & maintenance | 602 | 664 | 562 | 632 | 2,480 | 632 | 543 | 639 | 654 | 2,498 |
| Depreciation, depletion, & amortization | 343 | 339 | 354 | 353 | 1,399 | 390 | 334 | 356 | 369 | 1,419 |
| Other taxes | 165 | 134 | 133 | 119 | 551 | 159 | 139 | 141 | 125 | 563 |
| Total operating expenses | 2,322 | 1,932 | 1,845 | 1,825 | 7,921 | 1,972 | 1,771 | 1,943 | 2,088 | 7,774 |
| Income from operations | 1,105 | 818 | 1,131 | 753 | 3,807 | 949 | 991 | 1,105 | 890 | 3,935 |
| Other income | 33 | 31 | 19 | 49 | 139 | 52 | 24 | 16 | 28 | 120 |
| Income before interest & income taxes | 1,138 | 856 | 1,150 | 802 | 3,946 | 1,001 | 1,015 | 1,121 | 918 | 4,055 |
| Interest & related charges | 223 | 221 | 227 | 227 | 898 | 224 | 227 | 227 | 227 | 905 |
| Income before income taxes | 915 | 635 | 923 | 575 | 3,048 | 777 | 788 | 894 | 691 | 3,150 |
| Income taxes | 327 | 201 | 306 | 150 | 994 | 198 | 259 | 295 | 228 | 990 |
| noncontrolling interests | 4 | 5 | 6 | 9 | 24 | 7 | 6 | 5 | 4 | 22 |
| Operating Earnings | \$584 | \$429 | \$611 | \$416 | \$2,040 | \$572 | \$523 | \$594 | \$459 | \$2,148 |
| Operating Earnings per Share | \$0.99 | \$0.73 | \$1.03 | \$0.70 | \$3.44 | \$0.96 | \$0.87 | \$1.00 | \$0.77 | \$3.60 |
| Items excluded from operating earnings (net of taxes) | 48 | 16 | 18 | 58 | 141 | 48 | 38 | 42 | 32 | 160 |
| Reported Net Income | \$536 | \$413 | \$593 | \$358 | \$1,899 | \$524 | \$485 | \$552 | \$491 | \$2,052 |
| Reported Earnings Per Common Share-Diluted | \$0.91 | \$0.70 | \$1.00 | \$0.60 | \$3.20 | \$0.88 | \$0.81 | \$0.93 | \$0.83 | \$3.45 |
| Average shares outstanding, diluted | 589.9 | 592.5 | 595.5 | 596.7 | 596.7 | 598.2 | 598.2 | 598.2 | 598.2 | 598.2 |

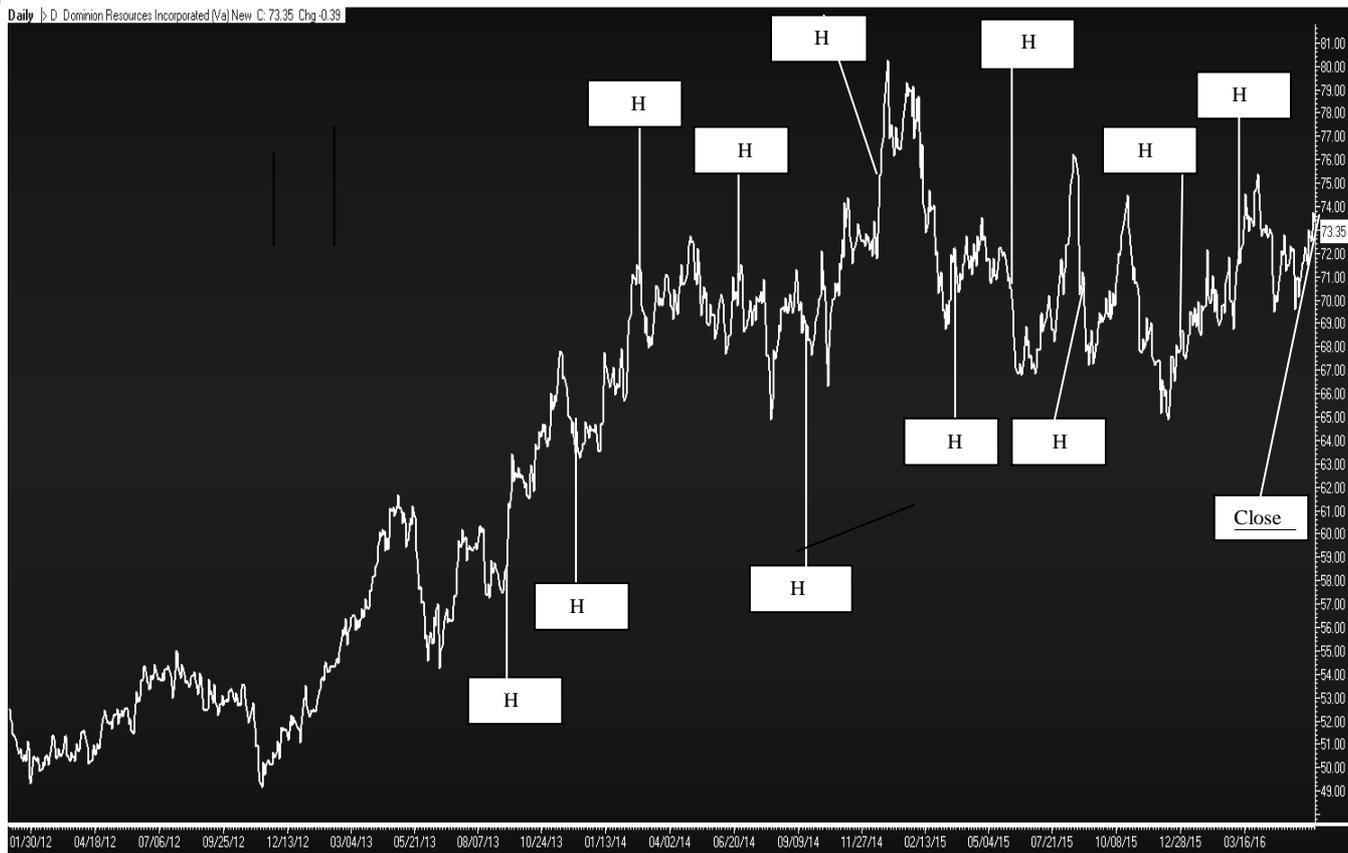


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Important Disclosures

Daily b D Dominion Resources Incorporated (Va) New C: 73.35 Chg: -0.39



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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