



**November 25, 2016**

**CURRENT PRICE:** \$73.95  
**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	\$0.73A
3Q	\$1.03	\$1.14A
4Q	\$0.70	\$0.77
	<b>\$3.45</b>	<b>\$3.60</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$78.97-\$64.54**  
 SHARES OUTSTANDING: **626(M)**  
 MARKET CAP: **\$46,293(M)**  
 AVG. DAILY TRADING VOLUME: **2.55(M)**  
 S&P 500: **2,213**

**Valuation Data**

BOOK VALUE: **\$21.46**  
 PRICE TO BOOK: **3.5x**  
 DIVIDEND: **\$2.80**

**Dominion Resources (NYSE: D)**

*Reports 3Q16 earnings results*

**Highlights**

- 3Q16 operating earnings \$1.14/share vs. \$1.03/share during 3Q15
- Earnings helped by weather, lower expenses, & project revenues
- Operating income rose in 2 of 3 units
- Affirmed 2016 operating earnings guidance of \$3.60-\$4.00/share
- Maintain HOLD rating

**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.*

100 Concourse Boulevard, Suite 101  
 Glen Allen, Virginia 23059

804.612.9700 ■ 800.612.1484  
 804.527.1104

[www.CapitolSecurities.com](http://www.CapitolSecurities.com)

Member  
 FINRA  
 SIPC

Offices: Glen Allen, VA ■ Reston, VA ■ Charlottesville, VA ■ Silver Spring, MD ■ Baltimore, MD ■ Tampa, FL ■ Boston, MA ■ Florham Park, NJ



# EQUITY RESEARCH

## Recent Earnings

D reported 3Q16 operating earnings of \$1.14/share vs. \$1.03/share during 3Q15. The improvement in quarterly results was due to an increase in electric sales, lower capacity expenses, revenues from regulated growth projects, and a lower tax rate. These were partly offset by the absence of farmout transactions and an increase in outstanding shares. Both operating revenues and operating expenses rose to \$3.13 billion, from \$2.97 billion, and to \$1.99 billion from \$1.85 billion, respectively. Income from operations increased to \$1.15 billion from \$1.12 billion and EBIT improved to \$958 million from \$904 million. Operating income rose at the Dominion Virginia Power and Dominion Generation units while declining at the Dominion Energy unit. 3Q16 GAAP earning increased to \$1.10/share from \$1.00/share.

## SEGMENT RESULTS

DVP reported operating income of \$281 million vs. \$252 million. The positive of warmer-than-normal weather during 3Q16 and was partly offset high storm restoration expenses. Revenues rose to \$620 million from \$543 million and operation expenses increased to \$339 million from \$291 million. Increased storm restoration costs, higher DD&A/tax expenses during 3Q16 caused higher total operating expenses. DVP's contribution to overall earnings rose to \$0.22/share from \$0.21/share.

Total delivered retail electrical GWh rose 7.2% to 23,307 GWh from 21,743 GWh. This occurred from increases in Residential (+10.0%), Commercial (+7.2%), Governmental/Other (+5.4%) and was partly offset by Industrial (-1.7%). Wholesale resale of electricity decreased 14.9% to 758 GWh.

DE's 3Q16 operating income fell to \$196 million from \$248 million. Lower operating income was a result of higher operating expenses (\$368 million vs. \$288 million) and more than offset higher revenues (\$564 million vs. \$536 million). The primary drivers of higher operating expenses were increased storm related and other operations/maintenance costs (\$166 million vs. \$96 million), DD&A (\$77 million vs. \$65 million), and other taxes (\$48 million vs. \$44 million). Partly offsetting these were lower purchased gas costs (\$73 million vs. \$79 million). EBIT decreased to \$233 million from \$269 million. DE's contribution to overall earnings fell to \$0.21/share from \$0.26/share.

Total regulated gas revenues decreased to \$18 million from \$21 million while regulated gas transmission/storage revenues rose to \$128 million from \$118 million. Natural gas deliveries increased 19.1% to 107,191 mmcf due to growth of deliveries in Industrial (+17.9%) and Others (+25.8%) and were partly offset by declines in Residential (-9.2%) and Commercial (-5.4%).

DG reported operating income of \$739 million vs. \$635 million. The improvement was due to favorable weather conditions while being partly offset by an unplanned outage at DG's Millstone power plant. Operating revenues rose to \$1.95 billion from \$1.90 billion and operating expenses decreased to \$1.21 billion from \$1.26 billion.



# EQUITY RESEARCH

Several expense categories registered decreases such as electric fuel/other energy-related purchases (-\$32 million), and excess electricity (swinging to +\$6 million from -\$75 million). These positives were partly offset by higher costs in Other operations/maintenance (+ \$36 million), DD&A (+\$23 million), and other taxes (+\$5 million). EBIT increased to \$744 million from \$640 million. DG's contribution to overall earnings grew to \$1.04/share from \$0.66/share. Total electric sales to NEPool decreased 3.2% to 4,908 GWh and sales to PJM rose 14.3% to 2,415 GWh.

“Corporate and Other” for D includes costs/expenses not attributable to the company’s three operating units. This segment’s total operating expenses increased to \$217 million from \$141 million and revenues grew to \$146 million from \$128 million. The overall contributions to earnings was (\$0.37)/share vs. (\$0.13)/share.

## RECENT DEVELOPMENTS

D received regulatory approval from Wyoming for its purchase of Questar allowing the completion of the merger between the two companies.

Dominion Midstream (DM-\$25.90) agreed to purchase Questar Pipeline, from D, for approximately \$1.73 billion, including debt. Related to this purchase DM did a 12 million unit public offering.

Duke Energy (DUK-\$74.35) will sell some of its Atlantic Coast Pipeline to D, giving D a 48% ownership in the pipeline project. Pipeline construction is expected to commence during 3Q17 and be operational by 4Q19. The Atlantic Coast Pipeline chose its lead construction company, Spring Ridge Constructors comprised of Quanta Services (PWR-\$32.88) and Primoris Services (PRIM-\$23.70).

D lost funding from the US Department of Energy for the proposed 6 MW wind turbines offshore from VA Beach VA. The loss was the result of D’s inability to guarantee the project being operational by 2020.

D recently raised approximately \$750 million of capital through a 10.2 million share offering whose proceeds will be used for general corporate purposes, including the ability to fund its Questar acquisition.



# EQUITY RESEARCH

## Our Thoughts

Benefitting from warmer weather, lower capacity expenses/taxes, and a new revenue stream from its regulated growth project, D generated 3Q16 operating earnings of \$1.14/share vs. \$1.03/share and adjusted earnings of \$1.10/share vs. \$1.00/share. Operating profit improved at the DG (+ \$104 million) and DVP (+ \$29 million) and decreased at DE (- \$52 million). During the past few months the company moved forward with its acquisition of Questar and sold the Questar pipeline to Dominion Midstream (DM-\$25.90). Additionally, D raised \$750 million in capital to help fund the Questar acquisition. Although not contiguous to its service territory, D believes this purchase will give it strategic natural gas assets which could benefit its overall energy portfolio. During the quarterly conference call D affirmed 2016 earnings guidance of \$3.60-\$4.00/share. We continue to rate D a HOLD given its relative high book value per share of 3.5x book, one of the highest in the utility sector, and trading at 20.5x our 2016 earnings estimates.

## 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.

Steven F. Marascia  
Director of Research  
Capitol Securities Management  
804-612-9715



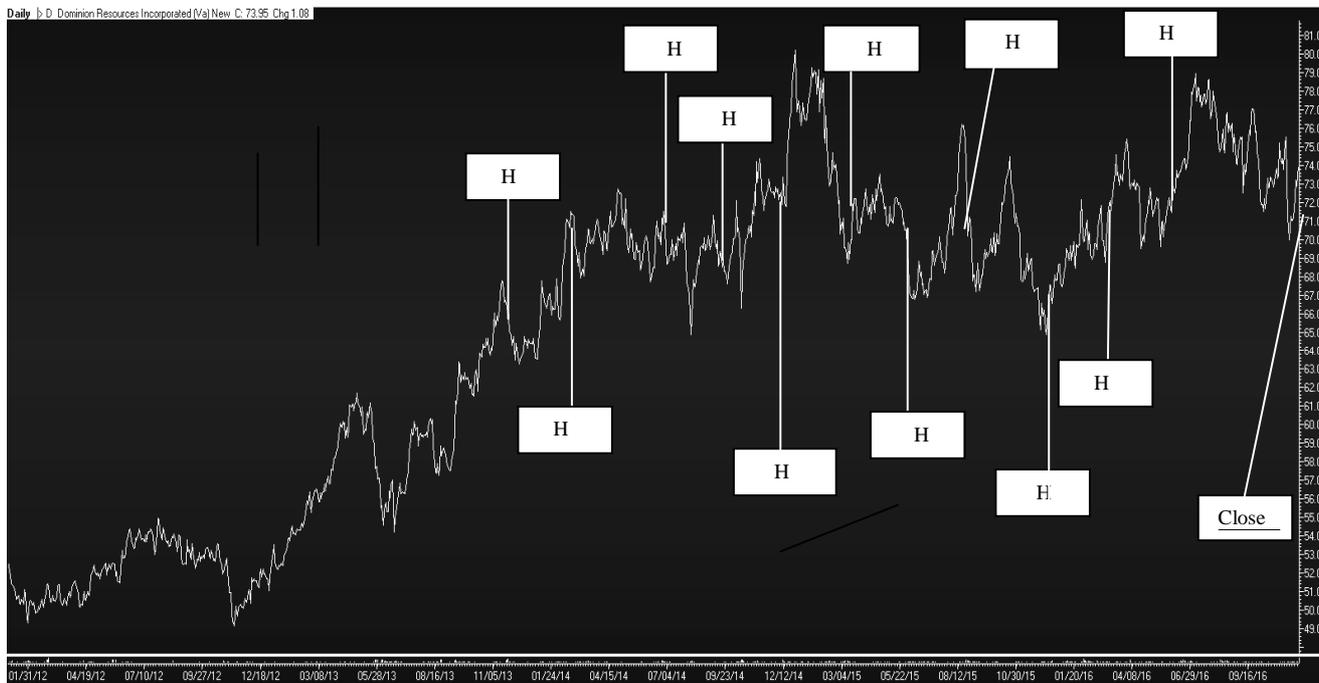
# EQUITY RESEARCH

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

	1Q15	2Q15	3Q15	4Q15	FY15	1Q16	2Q16	3Q16	4Q16e	FY16e
<b>Operating Revenue</b>	\$3,427	\$2,747	\$2,976	\$2,578	\$11,728	\$2,921	\$2,598	\$3,132	\$2,978	\$11,629
<b>Operating Expenses</b>										
Electric fuel/other energy-related purchases	868	591	636	545	2,640	634	551	606	745	2,536
Purchased electric capacity	94	90	75	71	330	68	45	6	82	201
Purchased gas	250	111	85	105	551	119	56	77	113	365
Other operations & maintenance	602	664	562	632	2,480	632	665	765	654	2,716
Depreciation, depletion, & amortization	343	339	354	353	1,399	390	361	400	369	1,490
Other taxes	165	134	133	119	551	159	139	145	125	598
<b>Total operating expenses</b>	<b>2,322</b>	<b>1,932</b>	<b>1,845</b>	<b>1,825</b>	<b>7,921</b>	<b>1,972</b>	<b>1,817</b>	<b>1,987</b>	<b>2,088</b>	<b>7,864</b>
<b>Income from operations</b>	<b>1,105</b>	<b>818</b>	<b>1,131</b>	<b>753</b>	<b>3,807</b>	<b>949</b>	<b>781</b>	<b>1,145</b>	<b>890</b>	<b>31,653,765</b>
<b>Other income</b>	<b>33</b>	<b>31</b>	<b>19</b>	<b>49</b>	<b>139</b>	<b>52</b>	<b>72</b>	<b>63</b>	<b>28</b>	<b>215</b>
<b>Income before interest &amp; income taxes</b>	<b>1,138</b>	<b>856</b>	<b>1,150</b>	<b>802</b>	<b>3,946</b>	<b>1,001</b>	<b>853</b>	<b>1,208</b>	<b>918</b>	<b>3,980</b>
<b>Interest &amp; related charges</b>	<b>223</b>	<b>221</b>	<b>227</b>	<b>227</b>	<b>898</b>	<b>224</b>	<b>239</b>	<b>250</b>	<b>227</b>	<b>940</b>
<b>Income before income taxes</b>	<b>915</b>	<b>635</b>	<b>923</b>	<b>575</b>	<b>3,048</b>	<b>777</b>	<b>614</b>	<b>958</b>	<b>691</b>	<b>3,040</b>
<b>Income taxes</b>	<b>327</b>	<b>201</b>	<b>306</b>	<b>150</b>	<b>994</b>	<b>198</b>	<b>152</b>	<b>230</b>	<b>228</b>	<b>990</b>
<b>noncontrolling interests</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>9</b>	<b>24</b>	<b>7</b>	<b>10</b>	<b>38</b>	<b>4</b>	<b>59</b>
<b>Operating Earnings</b>	<b>\$584</b>	<b>\$429</b>	<b>\$611</b>	<b>\$416</b>	<b>\$2,040</b>	<b>\$572</b>	<b>\$452</b>	<b>\$690</b>	<b>\$459</b>	<b>\$2,173</b>
<b>Operating Earnings per Share</b>	<b>\$0.99</b>	<b>\$0.73</b>	<b>\$1.03</b>	<b>\$0.70</b>	<b>\$3.44</b>	<b>\$0.96</b>	<b>\$0.73</b>	<b>\$1.14</b>	<b>\$0.77</b>	<b>\$3.60</b>
<b>Items excluded from operating earnings (net of taxes)</b>	<b>48</b>	<b>16</b>	<b>18</b>	<b>58</b>	<b>141</b>	<b>48</b>	<b>12</b>	<b>25</b>	<b>32</b>	<b>117</b>
<b>Reported Net Income</b>	<b>\$536</b>	<b>\$413</b>	<b>\$593</b>	<b>\$358</b>	<b>\$1,899</b>	<b>\$524</b>	<b>\$440</b>	<b>\$665</b>	<b>\$491</b>	<b>\$2,060</b>
<b>Reported Earnings Per Common Share-Diluted</b>	<b>\$0.91</b>	<b>\$0.70</b>	<b>\$1.00</b>	<b>\$0.60</b>	<b>\$3.20</b>	<b>\$0.88</b>	<b>\$0.71</b>	<b>\$1.10</b>	<b>\$0.83</b>	<b>\$3.52</b>
<b>Average shares outstanding, diluted</b>	<b>589.9</b>	<b>592.5</b>	<b>595.5</b>	<b>596.7</b>	<b>596.7</b>	<b>598.2</b>	<b>617</b>	<b>626</b>	<b>626</b>	<b>626</b>

## Important Disclosures

Daily | D: Dominion Resources Incorporated (Va) New C: 73.95 Chg 1.08



11/27/09 \$36.14 Initiate BUY

6/18/10 \$42 Lower Rating to HOLD

Ratings:

Buy: B

Hold: H

Sell: S

Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Steven Marascia owns shares of Dominion Resources

Stock ratings used in this report are defined as follows:

- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (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.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1)50%, (2) 50%, (3) 0%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are (1) 100%, (2) 0%, (3) 0%

Capitol Securities Management's Investment Banking/Public Finance unit has not received compensation for investment banking services from the subject company in the past 12 months. Nor does it expect to receive, or intend to seek compensation for, investment banking services from the subject company in the next 3 months.

No affiliate of Capitol Securities Management, or Capitol Securities Management, received compensation from the subject company for products or services during the past 12 months.

The subject company is not, or during the past 12 months, was not, a client of Capitol Securities Management's Investment Banking/Public Finance unit.



**CAPITOL  
SECURITIES**  
MANAGEMENT, INC.

**EQUITY  
RESEARCH**

## Other Disclosures

This report is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Capitol Securities or its affiliates to any registration or licensing requirement within such jurisdiction. The information presented in this report is provided to you for information purposes only and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. Capitol Securities may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. Capitol Securities will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Capitol Securities does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. Information and opinions presented in this report have been obtained or derived from sources believed by Capitol Securities to be reliable, but Capitol Securities

makes no representation as to their accuracy or completeness. This report is not to be relied upon in substitution for the exercise of independent judgment. Capitol Securities may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by Capitol Securities and are subject to change without notice. The price, value of and income from any of the securities mentioned in this report can fall as well as rise.

**For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 100 Concourse Boulevard, Suite 101, Glen Allen, Virginia 23059**