



**July 5, 2019**

**CURRENT PRICE:** \$77.90  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 4.7%

**EPS Estimates - Non-GAAP**

	DEC 18A	DEC 19E
1Q	\$1.14	\$1.14A
2Q	\$0.86	\$0.78
3Q	\$1.15	\$1.17
4Q	\$0.89	\$1.15
	<b>\$4.05</b>	<b>\$4.20</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$79.47-\$67.30**  
SHARES OUTSTANDING: **793.1(M)**  
MARKET CAP: **\$61,782(M)**  
AVG. DAILY TRADING VOLUME: **3.70(M)**  
S&P 500: **2,990**

**Valuation Data**

BOOK VALUE: **\$33.58**  
PRICE TO BOOK: **2.32x**  
DIVIDEND: **\$3.67**

**Dominion Energy (NYSE: D)**

*Affirms 2019 earnings guidance*

**Highlights**

- 1Q19 operating earnings \$1.10/share vs. \$1.14/share during 1Q18
- Weather hurt earnings by \$0.06/share
- ACP construction delayed & appealing to SCOTUS
- Completed Scana merger
- Maintain HOLD rating

**Company Summary**

Dominion Energy, headquartered in Richmond VA, is one of the largest US electric utilities. The company has three operating units: Power Delivery, Power Generation, and Gas Infrastructure. Power Delivery operates D's regulated electric distribution, transmission and un-regulated retail business (gas & electric). D recently completed its purchase of SCANA. Power Generation operates the electric generation plants for D. Gas Infrastructure operates the natural gas pipeline/storage business and Dominion East Ohio. D recently purchased Questar adding regulated and unregulated gas businesses. On a combined basis, D now has 3.3 million natural gas utility customers in OH, SC, UT, VA, WV, & WY, 7.5 million total energy/energy related customers in 18 states, 15,900 miles of gas gathering/storage/transmission pipelines and 92,900 miles of gas distribution pipelines. Also, D owns 10,200 miles of electric transmission lines and 31,000 MW of electrical production. Since 2003 D has grown its dividend from \$1.29/share to \$3.34/share. 2019's operating earnings increased to \$4.05/share from \$3.67/share during 2018.

*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.*



# EQUITY RESEARCH

## Recent Earnings

D reported 1Q19 GAAP earnings of (\$0.86/share) vs. \$0.77/share during 1Q18. The decline was due to charges related to the recent SCANA merger and the early retirement of some coal reserve utility-generating units in VA. 1Q19 operating earnings decreased to \$1.10/share from \$1.14/share during 1Q18. Results were impacted by mild weather in VA and SC which, according to D, impacted earnings by \$0.06/share. Operating revenues improved to \$3.86 billion from \$3.47 billion while operating expenses rose to \$4.34 billion from \$2.59 billion, reflecting higher expenses within all categories and the largest coming from operations and maintenance (+\$1 billion). D's units contributed in the following amounts to overall operating earnings/share: Power Delivery + \$0.19/share, Power Generation + \$0.39/share, Gas Infrastructure + \$0.45/share, Southeast Energy + \$0.17/share, and Corporate/Other – \$0.10/share.

D took a \$1.6 billion pre-tax charge during 1Q19. This charge consisted of \$1.4 billion for merger/integration costs related to the SCANA merger, \$547 million associated with VA utility asset retirements, \$113 million benefit from the revision of certain asset retirement obligations for ash ponds/landfill facilities, and a \$253 million net gain related to D's investments in nuclear decommissioning trust funds. Additionally, the company recorded a \$198 million after-tax charge for certain income tax-related regulatory assets, acquired from SCANA, in which D committed to forego recovery.

## SEGMENT RESULTS

Power Delivery reported operating income of \$266 million during 1Q19 vs. \$260 million during 1Q18. The increase came from higher operating revenues (\$604 million vs. \$569 million) and offset an increase in operating expenses (\$338 million vs. \$309 million). The rise in expenses came from other operations/maintenance (+\$23 million), DD&A (+\$5 million), and other taxes (+\$1 million). Reported segment income decreased by \$1 million to \$155 million. Adjusted EBITDA rose to \$429 million from \$423 million and Power Delivery's contribution to D's overall earnings decreased to \$0.19/share from \$0.24/share.

Total regulated electric sales fell 16.6% to \$1.42 billion from \$1.70 billion. This resulted from decreased sales in Industrial (-72.0%), Residential (-20.9%), Government/Other retail (-6.1%), Commercial (-5.3%) and was partly offset by an increase in Wholesale (+14.3%).

Total delivered GWh increased 21.6% to 26,958 GWh from 22,162 GWh. This came from higher deliveries to Industrial (+62.1%), Commercial (+25.4%), Wholesale (+24.5%), Residential (+14.2%), and Government/other retail (+4.8%).

Power Generation reported operating income of \$466 million vs. \$525 million. The decrease occurred as revenues fell to \$1.75 billion from \$1.86 billion and was partly offset by lower operating expenses of \$1.28 billion vs. \$1.34 billion. Operating expenses declined due to lower electric fuel/other energy related purchases (-\$52 million), DD&A (-\$9 million), other operations/maintenance (-\$8 million), and other taxes (-\$3 million). These declines



were partially countered by an increase in purchased electric capacity (+\$18 million). Adjusted EBITDA fell to \$678 million from \$748 million and Power Generation's contribution to D's overall earnings decreased to \$0.39/share from \$0.54/share.

Gas Infrastructure reported operating income of \$465 million vs. \$383 million. The higher results came from higher revenues (+\$171 million) compared to an increase in operating expenses (+\$99 million). Operating expenses rose due to higher other operations/maintenance (+\$60 million), DD&A (+\$26 million), other taxes (+\$18 million) while being partly offset by decreases in purchased gas (-\$10 million) and electric fuel/other energy-related purchases (-\$5 million). Adjusted EBITDA rose to \$736 million from \$612 million and Gas Infrastructure's contribution to D's overall earnings decreased to \$0.45/share from \$0.50/share.

Regulated gas revenues improved to \$831 million from \$477 million and revenues from regulated gas transportation/storage increased to \$490 million from \$452 million. LDC natural gas deliveries rose to 346,346 mmcf from 271,142 mmcf.

Southeast Energy (acquired from SCANA) generated operating income of \$231 million. This unit produced adjusted EBITDA of \$371 million and contributed \$0.17/share to D's overall earnings.

Corporate and Other reported operating income of (\$1.91 billion) vs. (\$293 million). This unit's contribution to D's overall earnings was (\$0.10)/share vs. (\$0.14)/share.

## RECENT DEVELOPMENTS

The company recently announced a public offering of 12.5 million shares of Series A equity units at \$100/unit, with an underwriters option to purchase an additional 1.875 million units. These proceeds will be for general corporate purposes and to repay short-term debt.

The Board of Directors raised the annual dividend to \$3.67/share from \$3.34/share.

The US Department of Justice, and D, asked the Supreme Court to overturn a lower court decision by the US Court of Appeals to stay a permit, for the Atlantic Coast Pipeline (ACP), from the US Fish & Wildlife Service which authorized the pipeline's construction in areas inhabited by threatened/endangered species. This lower court ruling effectively halted construction of the ACP. Management believes the ACP could resume construction during 3Q19 with a favorable ruling from the US Supreme Court. The delay in construction has raised the cost estimate for building ACP to \$7.0 billion - \$7.5 billion. The ACP did receive a compressor station permit from the VA Air Pollutin Control Board.



D announced it was withdrawing its application for the Appalachian gas project known as the Sweden Vally pipeline extension due to delays at the Federal Regulatory Energy Commission. This pipeline was an extension project for the purpose of delivering natural gas into the Tennessee Gas Pipeline in Eastern OH.

The company is investigating an explosion in Durham NC after a gas line at its subsidiary, PSNC Energy, was struck by a working crew. One person was killed and 15 others were injured from the explosion.

D agreed to spend \$870 million on energy efficiency programs in VA during the next 10 years.

10 coal/gas-fired power units are being permanently retired in VA.

D reached a deal with the state of Connecticut keeping the Millstone power station in service for the next decade. This plant produces roughly half of the electricity in Connecticut.

In an effort to combat global warming, D management's stated its target of a 55%-80% reduction in gross carbon emissions from its electric generation fleet by 2020-2050. The goal is to prevent 430K metric tons of methane from entering the atmosphere. To this end, plans are to add 3000 MWs of solar generations along with retiring older coal plants.

D and Dominion Energy Midstream recently completed their merger agreement, as Dominion Energy Midstream received shares of D.

State of VA announced a \$3 billion plan requiring D to clean up approximately 27 million cubic yards of coal ash stored in four unlined pits throughout the state.

D promoted Jim Chapman to Executive VP/CFO/Treasurer and named Senior VP/CIO Rodney Blevins to the position of Pres/CEO of Southeast Energy Group-a subsidiary of SCANA. Several SC Electric & Gas executives will stay on in similar roles with the combined D/Scana entity, including SCE&G President Keller Kissam and CFO Iris Griffin.





## Our Thoughts

D reported 1Q19's operating earnings decreased to \$1.10/share from \$1.14/share during 1Q18. Results were impacted by mild weather in VA and SC which, according to D, impacted earnings by \$0.06/share. GAAP earnings were (\$0.86/share) vs. \$0.77/share during 1Q18. During a recent investor conference management reaffirmed the belief D's earnings could grow at a compounded annual rate of 6%-8% through 2023 and subsequently increase the annual dividend with a payout ratio of 70%. Additionally, D reaffirmed its 2019 operating earnings guidance of \$4.05-\$4.40/share.

A major issue investors are watching is construction of the Atlantic Coast Pipeline which has been halted pending an appeal to US Supreme Court. A positive ruling in this matter could generate upside potential for D's stock and cause downside pressure with a negative ruling. Another issue is D funding its grid update program. To this end, plans are to file with regulators, this August, seeking funding through customer rates and riders. We continue to rate this stock a HOLD as investors will be paid a current dividend yield of 4.7%.

## 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/regulatory rulings, 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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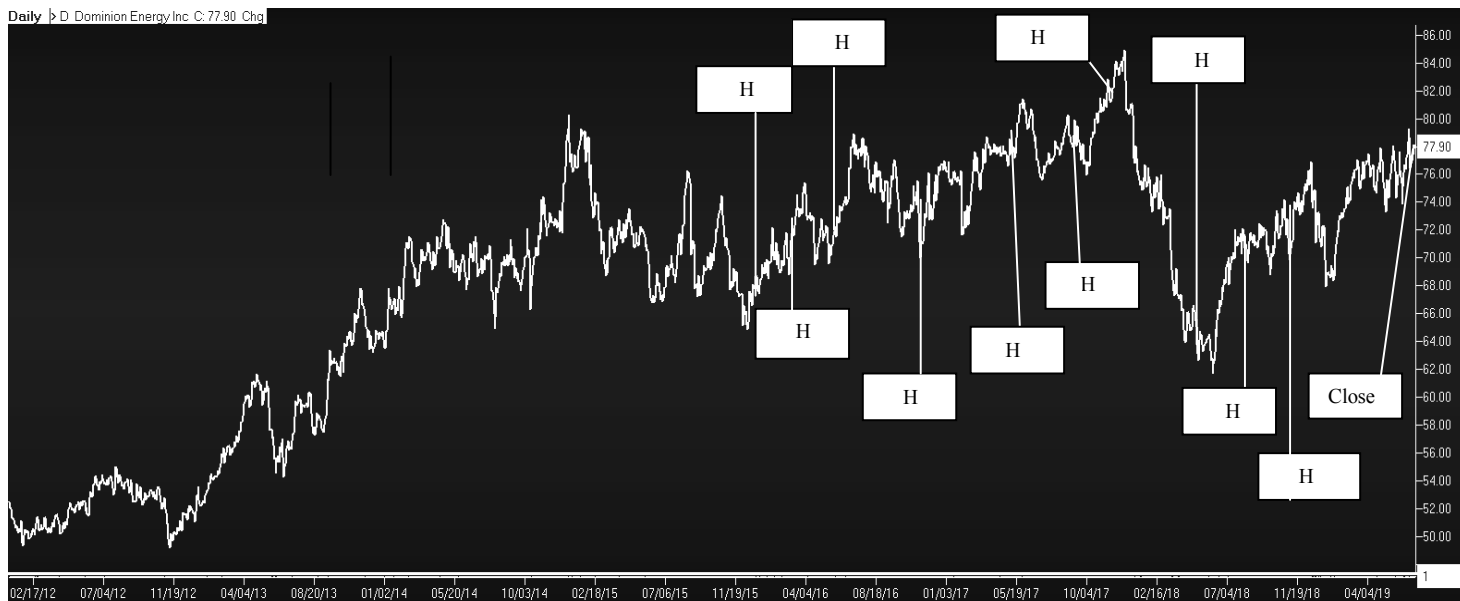
# EQUITY RESEARCH

Dominion Resources (in millions, except per share data)										
	2017	1Q18	2Q18	3Q18	2018	1Q19	2Q19e	3Q19e	4Q19e	2Q19e
Operating Revenue	\$12,586	\$3,466	\$3,088	\$3,451	\$13,366	\$3,858	\$3,216	\$3,677	\$3,423	\$14,174
Operating Expenses										
Electric fuel/other energy-related purchases	2,301	744	623	761	2,814	791	677	786	695	2,949
Purchased electric capacity	6	14	23	50	122	39	25	63	38	165
Purchased gas	701	340	64	5	645	730	83	29	249	1,091
Other operations & maintenance	2,875	796	1,007	782	3,481	1,837	897	814	886	4,434
Depreciation, depletion, & amortization	2,905	498	463	526	2,000	651	524	526	548	2,249
Other taxes	668	199	166	177	703	292	195	159	175	821
Total operating expenses	8,456	2,591	2,346	2,301	9,765	4,340	2,401	2,377	2,591	11,709
Income from operations	4,130	875	742	1,150	3,601	-482	815	1,300	832	2,465
Other income	165	100	185	373	1,021	388	367	249	373	1,377
Income before interest & income taxes	4,295	975	927	1,523	4,622	-94	1,182	1,549	1,205	3,842
Interest & related charges	1,205	314	361	378	1,493	469	476	478	474	1,897
Income before income taxes	3,090	661	566	1,145	3,129	-563	706	1,071	781	1,995
Income taxes	30	135	88	262	500	114	161	245	167	687
noncontrolling interests	121	23	29	29	102	-3	-26	-28	-24	-81
Reported Earnings	\$2,999	\$503	\$449	\$854	\$2,527	(\$680)	\$519	\$798	\$540	\$1,177
Reported Earnings Per Share	\$4.72	\$0.77	\$0.69	\$1.30	\$3.74	(\$0.86)	\$0.65	\$1.01	\$0.68	\$1.48
Items excluded from operating earnings (net of taxes)	\$709	\$238	\$111	\$96	\$204	\$1,553	\$103	\$130	\$372	\$2,158
Operating Net Income	\$2,290	\$741	\$560	\$758	\$2,651	\$873	\$622	\$928	\$912	\$3,335
Operating Earnings Per Share-Diluted	\$3.59	\$1.14	\$0.86	\$1.15	\$4.05	\$1.10	\$0.78	\$1.17	\$1.15	\$4.20



# EQUITY RESEARCH

## 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 Energy

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