December 19, 2019

Dominion Energy (NYSE: D)

Earnings Report & Dividend Increase

CURRENT PRICE:	**$81.80**
RATING:	**HOLD**
PRICE TARGET:	**N/A**
CURRENT YIELD:	**4.6%**

EPS Estimates - Non-GAAP

	DEC 18A	DEC 19E
1Q	$1.14	$1.10A
2Q	$0.86	$0.78A
3Q	$1.15	$1.18A
4Q	$0.89	$1.12
	$4.05	**$4.18**

Trading Data

52-WEEK PRICE RANGE:	**$83.93-$67.41**
SHARES OUTSTANDING:	**813.0(M)**
MARKET CAP:	**$66,503(M)**
AVG. DAILY TRADING VOLUME:	**3.18(M)**
S&P 500:	**3,205**

Valuation Data

BOOK VALUE:	**$33.52**
PRICE TO BOOK:	**2.44x**
DIVIDEND:	**$3.76**

Highlights

- 3Q19 operating earnings $1.18/share vs. $1.15/share during 3Q18
- Weather added $58 million (pre-tax) to 3Q19 results
- Increased annual dividend 2.5%
- Maintains ACP cost construction estimates
- Maintain HOLD rating

Company Summary

Dominion Energy, headquartered in Richmond VA, is one of the largest US electric utilities. The company has four operating units: Power Delivery, Power Generation, Gas Infrastructure, and Southwest Energy. Power Delivery operates D's regulated electric distribution, transmission and un-regulated retail business (gas & electric). Gas Infrastructure operates the natural gas pipeline/storage business and Dominion East Ohio. D purchased Questar, in 2016, adding regulated and unregulated gas businesses. D recently completed its purchase of SCANA. Power Generation operates the electric generation plants for D. 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 transimission lines and 31,000 GW of electrical production. Since 2003 D has grown its dividend from $1.29/share to $3.76/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.

Recent Earnings

D reported 2Q19 GAAP earnings of $0.05/share vs. $0.69/share during 2Q18. Results were impacted by a pre-tax $656 million charge during 2Q19 for costs associated with the Scana merger and D's voluntary retirement program. Total operating revenues increased to $3.97 billion from $3.09 billion and total operating expense rose to $3.51 billion from $2.35 billion as 2Q19's results included Scana's operations. When comparing the two quarters, operating earnings declined to $0.77/share from $0.86/share as three of D's five business units posted lower results. The decreases came from Power Delivery ($0.20/share vs. $0.23/share), Power Generation ($0.31/share vs. $0.42/share), and Gas Infrastructure ($0.31/share vs. $0.38/share). Improvement was seen in the new Southeast Energy unit (+$0.10/share), and Corporate Other (-$0.15/share vs. -$0.17/share).

SEGMENT RESULTS (3Q19 vs. 3Q18)

Power Delivery reported operating earnings of $185 million vs. $163 million. The increase resulted from an improvement in revenues ($683 million vs. $601 million) offsetting a rise in expenses ($382 million vs. $332 million). Higher expenses resulted in other operations/maintenance (+$13 million), DD&A (+$6 million), and other taxes (+$3 million), while electric fuel/other energy-related purchases was flat. Operating income improved to $301 million from $269 million and adjusted EBITDA rose to $469 million from $434 million. Power Delivery's contribution to D's overall earnings was $0.23/share vs. $0.25/share.

Total regulated electric sales rose to $2.92 billion from $2.17 billion as this unit experienced improved sales in residential (+40.0%), commercial (+ 30.5%), industrial (+58.7%), Government/Other (+8.9%), and wholesale (+50.0%). Total delivered GWh increased 30.0% to 31,193. The increases came from wholesale (+56.1%), industrial (+51.8%), residential (+33.3%), commercial (+26.8%), and Government/Other (+7.8%). These figures include the addition of customers from the recent Scana acquisition.

Power Generation reported operating earnings of $490 million vs. $414 million as a decrease in revenues ($1.85 billion vs. $2.02 billion) was more than offset by lower operating expenses ($1.19 billion vs. $1.42 billion). There were expense declines in electric fuel/other energy-related purchases (-$147 million), purchased electric capacity (-$43 million), other operations/maintenance (-$34 million), and other taxes (-$4 million), and DD&A (-$2 million). Operating income rose to $668 million from $608 million and adjusted EBITDA increased to $883 million from $820 million. Power Generation's contribution to D's overall earnings was $0.60/share vs. $0.63/share

Gas Infrastructure reported operating earnings of $232 million vs. $264 million as revenues decreased ($816 million vs. $843 million) coupled with a rise in operating expenses ($538 million vs. $500 million). The rise in expenses came from other operations/maintenance (+$35 million), purchased gas (+$8 million), other taxes (+$5 million), and DD&A (+$3 million). These were partially offset by a decline in electric fuel/other energy-related purchases

(-$13 million). Operating income decreased to $278 million from $343 million and adjusted EBITDA fell to $559 million from $598 million. Gas Infrastructure's contribution to D's overall earnings decreased to $0.29/share vs. $0.40/share.

Regulated gas revenue increased to $196 million from $91 million and regulated gas transmission/storage revenues rose to $416 million from $404 million. LDC natural gas deliveries grew to 212,951 mmcf from 162,507 mmcf.

Southeast Energy (acquired through Scana Corp.) reported operating earnings of $147 million vs. $361 million as revenues fell to $973 million from $3.07 billion and expenses decreased to $714 million from $2.41 billion. This unit generated adjusted EBITDA of $408 million vs. $1.01 billion and the contribution to D's overall earnings was $0.18/share vs. $0.45/share.

Corporate and Other reported an operating loss of -$87 million vs. -$83 million. Revenues were $146 million vs. $160 million while expenses rose to $338 million from $230 million. This unit did benefit from a $181 tax benefit during the just completed quarter. Adjusted EBIT improved to $55 million from $30 million and Corporate and Other's contribution to D's overall earnings was ($0.12)/share vs. ($0.13/share).

RECENT DEVELOPMENTS

The Board of Directors raised the annual dividend 2.5% to $3.76/share effective during 1Q20.

D announced a $200 million strategic partnership with Vanguard Renewables to convert methane from US dairy farms into renewable natural gas. These projects are underway in CO, GA, NM, NV, and UT, with the potential for others to be added in other states.

A voltage optimization project will be developed by D and Ameren (AEE-$75.45) to cover 1,047 distribution circuits. This project will target annual savings of 422 GWh hours when fully deployed by 2025.

D shut its pipeline near Pepper Pike, OH after it exploded in November.

D affirmed its expectation of completing the Atlantic Coast Pipeline (ACP), based on its previous timetable, with construction resuming by YE2020 and commissioning the pipeline by 2022. This is based on a potential positive ruling from the US Supreme Court this summer. Further, D believes still expects the cost of ACP to be $7.3 billion-$7.5 billion.

The State of VA and D announced a renewable energy deal for the utility to provide 420 MW of renewable energy to state government facilities. The energy will come from solar and wind installations.

Brookfield Asset Management announced it was taking a 25% non-controlling equity interest in D's Cove Point LNG facility. BAM will pay D $2 billion for this stake in the Cove Point facility.

D 's Coastal Virginia Offshore Project, also being developed by Orsted, may start delivering power by mid-2020 after receiving two key permits for the Bureau of Ocean Energy Management.

Our Thoughts

Good news for D shareholders as the company raised its dividend and reported improved 3Q19 results. The Board of Directors raised the annual dividend 2.5% to $3.76/year effective in 1Q20. 3Q19's operating earnings improved to $1.18/share from $1.15/share during 3Q18 as favorable weather added approximately $58 million pre-tax to 3Q19's profits, and included the recently acquired operations from Scana. Going forward management believes annual earnings could grow 4%-6% per yeare which may allow for further increases of its dividend.

One area of concern for Wall Street will be whether the ACP is able to restart construction following an expected US Supreme Court ruling sometime in 2020 as delays have increased estimated construction costs by over $500 million.   D affirmed its expectation of completing the Atlantic Coast Pipeline (ACP), based on its previous timetable, with construction resuming by YE2020 and commissioning the pipeline by 2022. This is based on a potential positive ruling from the US Supreme Court this summer. Further, D believes still the total construction cost of ACP will be $7.3 billion-$7.5 billion, as stated earlier this year by management.

While 3Q19 produced a decent earnings report, D's stock ttrades, along with most electric utilities, at we feel are stretched levels. The S&P 500 utilities currently trade at a forward PE multiple of 20x, while earnings are expected to grow this year by only 4.2%. Thus, based on current valuations, we continue to rate D a HOLD.

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, negative interest rate markets, 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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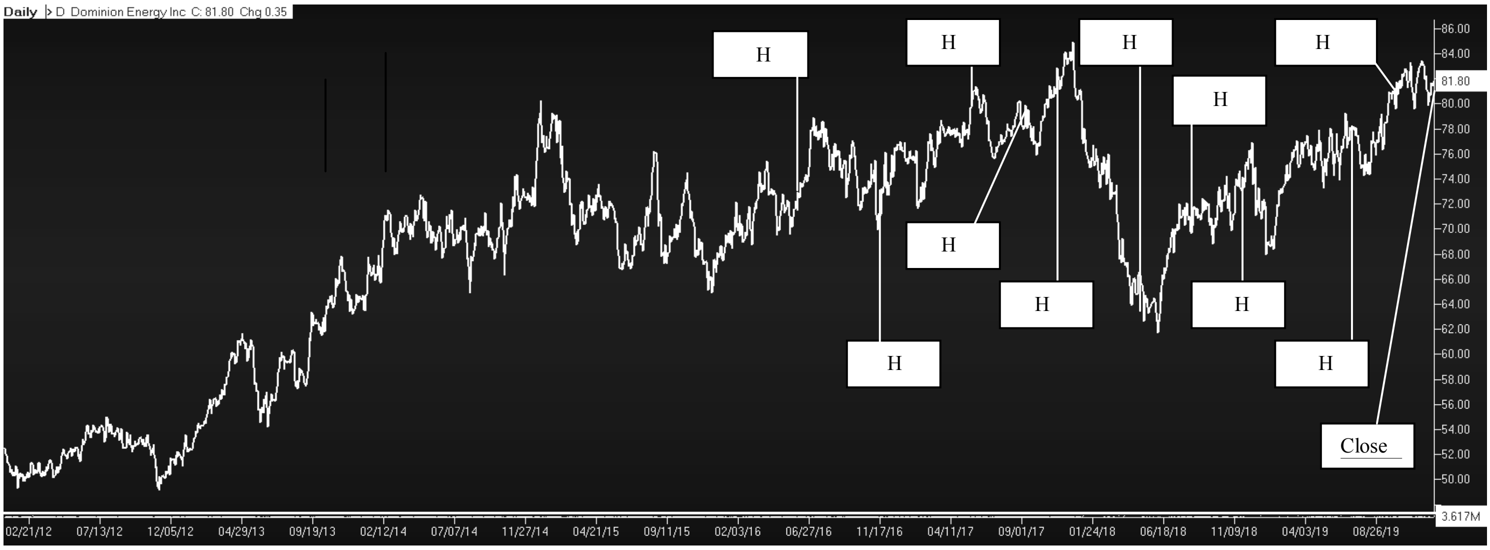
Dominion Resources
(in millions, except per share data)

	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19	4Q19e	2Q19e
Operating Revenue	$3,466	$3,088	$3,451	$3,361	$13,366	$3,858	$3,970	$4,269	$4,288	$16,385
Operating Expenses										
Electric fuel/other energy-related purchases	744	623	761	686	2,814	791	718	774	781	3,064
Purchased electric capacity	14	23	50	35	122	39	24	11	38	112
Purchased gas	340	64	5	236	645	730	227	153	249	1,359
Other operations & maintenance	796	1,007	782	896	3,481	1,837	1,595	1,095	1,086	5,613
Depreciation, depletion, & amortization	498	463	526	513	2,000	651	661	679	677	2,668
Other taxes	199	166	177	161	703	292	284	243	245	1,064
Total operating expenses	2,591	2,346	2,301	2,527	9,765	4,340	3,509	2,955	3,076	13,880
Income from operations	875	742	1,150	834	3,601	-482	461	1,314	1,212	1,505
Other income	100	185	373	363	1,021	388	92	173	265	1,865
Income before interest & income taxes	975	927	1,523	1,197	4,622	-94	553	1,487	1,477	2,423
Interest & related charges	314	361	378	440	1,493	469	452	451	452	3,423
Income before income taxes	661	566	1,145	757	3,129	-563	101	1,036	1,025	1,599
Income taxes	135	88	262	95	500	114	43	51	205	413
noncontrolling interests	23	29	29	21	102	-3	-4	-10	-12	-28
Reported Earnings	$503	$449	$854	$641	$2,527	($680)	$54	$975	$808	$1,157
Reported Earnings Per Share	$0.77	$0.69	$1.30	$0.97	$3.74	($0.86)	$0.05	$1.17	$0.99	$1.35
Items excluded from operating earnings (net of taxes)	$238	$111	$96	$49	$204	$1,553	$565	$8	$106	$2,232
Operating Net Income	$741	$560	$758	$592	$2,651	$873	$619	$967	$914	$3,389
Operating Earnings Per Share-Diluted	$1.14	$0.86	$1.15	$0.89	$4.05	$1.10	$0.77	$1.18	$1.12	$4.18

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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