



July 14, 2022

CURRENT PRICE: \$78.77
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.4%

EPS Estimates - Non-GAAP

	DEC 21A	DEC 22E
1Q	\$1.09	\$1.18A
2Q	\$0.76	\$0.76
3Q	\$1.11	\$1.13
4Q	\$0.90	\$1.02
	\$3.86	\$4.09

Trading Data

52-WEEK PRICE RANGE: \$88.78-\$70.37
SHARES OUTSTANDING: 832.0(M)
MARKET CAP: \$65,537(M)
AVG. DAILY TRADING VOLUME: 3.61(M)
S&P 500: 3,790

Valuation Data

BOOK VALUE: \$31.49
PRICE TO BOOK: 2.5x
DIVIDEND: \$2.67

Dominion Energy (NYSE: D)

1Q22 Earnings Results

Highlights

- 1Q22 operating earnings of \$0.83/share vs. \$1.23/share during 1Q21
- Earnings decrease due to charges taken during 1Q22
- Shifting towards a greener/renewables business strategy
- Reaffirmed 2022 operating earnings guidance of \$3.95-\$4.25/share
- Maintain HOLD rating

Company Summary

Dominion Energy, headquartered in Richmond VA, is one of the largest US electric utilities. The company has five operating units: Dominion Energy Virginia, Gas Distribution, Dominion Energy South Carolina (SC), Contracted Generation, & Corporate/Other. During the past 3 years, D purchased the SC gas utility, SCANA. On a combined basis, D now has 3.5 million natural gas utility customers in OH, SC, UT, VA, WV, & WY, 7.5 million total energy/energy related customers in 18 states. Also, D owns 10,200 miles of electric transmission lines and 33,000 GW of electrical production. Since 2003 D had grown its annual dividend from \$1.29/share to \$3.76/share, but was forced to reduce it to \$2.52/share following the cancellation of the Atlantic Coast Pipeline (ACP) in 2020. During 3Q21, the dividend was increased to \$2.67/share. Absent ACP to help grow future earnings, management pivoted towards earnings growth through renewable green generation/lowering greenhouse emissions. D's goal is to have net zero greenhouse gas emissions from its electric & natural gas operations by 2050. Towards this end, since 2005 coal generation of electricity has decreased from 50% to 10%.

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 1Q22 adjusted 1Q22 earnings of \$0.83/share compared to \$1.23/share during 1Q21. The decline was due to mark-to-market impact of economic hedging activities, other adjustments, and unrealized changes in the value of D's nuclear decommissioning trust. These charges totaled \$289 million in pre-tax adjustments. When comparing the two quarters, operating earnings improved to \$1.18/share from \$1.09/share due to higher operating revenues (+\$409 million) more than offsetting an increase in operating expenses (+\$311 million), and the exclusion of \$289 million in adjusted charges. Operating segment income increased at Dominion Energy VA, Gas Distribution, Dominion Energy SC, and Other while declining the Contracted Assets unit. Both operating and adjusted earnings results were impacted by a larger number of outstanding shares, when comparing 1Q22 to 1Q21.

SEGMENT RESULTS (4Q21 vs. 4Q20)

DOMINION ENERGY VIRGINIA: Reported operating earnings rose to \$518 million from \$434 million. The improvement resulted from an increase in revenues (\$2.17 billion vs. \$1.99 billion) offsetting a rise in operating expenses (\$1.45 billion vs. \$1.30 billion). Higher operating expenses came from DD&A (+\$44 million), purchased electric capacity (+\$15 billion), and electric fuel/other energy-related purchase (+\$11 million). These were partly offset by decreases in other taxes (-\$17 million) and other operations/maintenance (-\$1 million). Income from operations improved to \$722 million from \$690 million and Dominion Energy Virginia's contribution to overall earnings rose to \$0.64/share from \$0.54/share.

GAS DISTRIBUTION: Reported operating earnings increased to \$294 million from \$251 million as higher revenues (+\$254 million) outpaced a rise in operating expenses (+\$206 million). Higher operating expenses came from purchased gas (+\$185 million), other operations/maintenance (+\$14 million), and other taxes (+\$8 million). These were partly offset by lower DD&A expense (-\$1 million). Income from operations rose to \$348 million from \$300 million and Gas Distributions contribution to overall earnings rose to \$0.36/share from \$0.31/share.

DOMINION ENERGY SOUTH CAROLINA: Reported operating earnings of \$109 million vs. \$102 million. Revenues increased to \$799 million from \$754 million while operating expenses rose to \$615 million from \$577 million. The rise in operating expenses came from electric fuel/other energy-related purchase (+\$18 million), purchased gas (+\$16 million), other operations/maintenance (+\$8 million), other taxes (+\$5 million), and DD&A (+\$4 million). These were partly offset by a lower purchased electric capacity expense (-\$13 million). Dominion Energy South Carolinas contribution to overall earnings was flat at \$0.13/share.

CONTRACTED ASSETS: Reported operating earnings fell to \$101 million from \$150 million as a decrease in operating expenses was not enough to offset lower revenues. Revenues fell to \$249 million from \$289 million while expenses dropped to \$174 million from \$198 million. The decline in operating expenses came from



DD&A (-\$16 million), other operations/maintenance (-\$5 million), purchased gas (-\$1 million), electric fuel/other energy-related purchases (-\$1 million), and other taxes (-\$1 million). Income from operations fell to \$75 million from \$91 million and Contracted Assets contribution to overall earnings decreased to \$0.13/share from \$0.18/share.

CORPORATE & OTHER: Produced an operating loss of \$22 million vs. an operating loss of \$44 million. This occurred due to lower revenues (\$72 million vs. \$100 million) and a decline in operating expenses (\$425 million vs. \$480 million). The decrease in operating expenses came from other operations/maintenance (-\$76 million) and purchased gas (-\$40 million), while being partly offset by higher DD&A (+\$59 million) and other taxes (+\$2 million). Corporate & Other's contribution to overall earnings was (\$0.08)/share vs. (\$0.07)/share.

RECENT DEVELOPMENTS

D is soliciting proposals for the acquisition of 1,200 MW of new solar & offshore wind assets, as well as 125 MW of energy storage capacity. The company is seeking proposals for new photovoltaic (PV) solar nameplate capacity, new PV solar generation combine with energy storage nameplate capacity, new onshore wind nameplate capacity, new onshore wind paired with energy storage nameplate capacity, and new stand-alone energy storage nameplate capacity. Another proposal for a power purchase agreement will be issued around 9/1/22.

The Virginia State Corporation Commission (VSCC) recently approved expansion of new solar and energy storage projects for D to provide service to its Virginia electric customers. The approved expansion will include 15 Dominion VA Energy projects along with power purchase agreements with 24 other projects owned by 3rd-party developers. Once the projects are operational in 2022 & 2023, it is anticipated they will generate approximately 1,000 MW of carbon-free electricity.

D is selling its West Virginia natural gas utility, Hope Gas, to the Ullico Inc.'s infrastructure fund for \$690 million. The deal is expected to be completed by YE22.

The VSCC approved Phase II of D's grid transformation plan-the company's 10-year plan to transform its electric grid towards greener electrical generation. The plan calls for utilizing small-scale solar, energy storage facilities, as well as the deployment of a smart metering infrastructure and intelligent grid devices. The VSCC approved \$650 million of investments during 2022 & 2023.

Regarding D's balance sheet management, the company remarketed its Series A Cumulative Perpetual Convertible Preferred Stock. All shares will be redeemed on 9/1/22.

D filed a general rate case in Utah asking for a ROE of 13% and a revenue requirement increase of \$70 million. The company expects new rates, based on typical procedural schedule, to take effect during 1Q23.



Our Thoughts

D reported 1Q22 adjusted 1Q22 earnings of \$0.83/share compared to \$1.23/share during 1Q21. The decline was due to mark-to-market impact of economic hedging activities, other adjustments, and unrealized changes in the value of D's nuclear decommissioning trust. These charges totaled \$289 million in pre-tax adjustments. When comparing the two quarters, operating earnings improved to \$1.18/share from \$1.09/share due to higher operating revenues (+\$409 million) more than offsetting an increase in operating expenses (+\$311 million), and the exclusion of \$289 million in adjusted charges.

Following the cancellation of the ACP in 2020, D shifted its earning growth strategy towards renewable energy sources and carbon reduction efforts. Management believes this strategy will generate 6.5% annual operating earnings growth through 2026. Whether this goal will be achieved depends on many factors, including potential rising commodity costs associated with various green projects-such as the windshore wind project off the coast of Virginia and solar project component costs. Given the possibility of a rising interests in 2022, the recent rotation of money into the utility sector following Russia's invasion of Ukraine, and with D currently trading at 19.3x our 2022 operating earnings estimate of \$4.09/share, we continue to rate this stock a HOLD.



Risks

There is no guarantee D will improve earnings/cash flow. Shifting its business strategy towards “green” generation may not grow future earnings as outlined by management, could be looked upon unfavorably by Wall Street and result in heavy selling of D’s stock. 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 and stock price. 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)

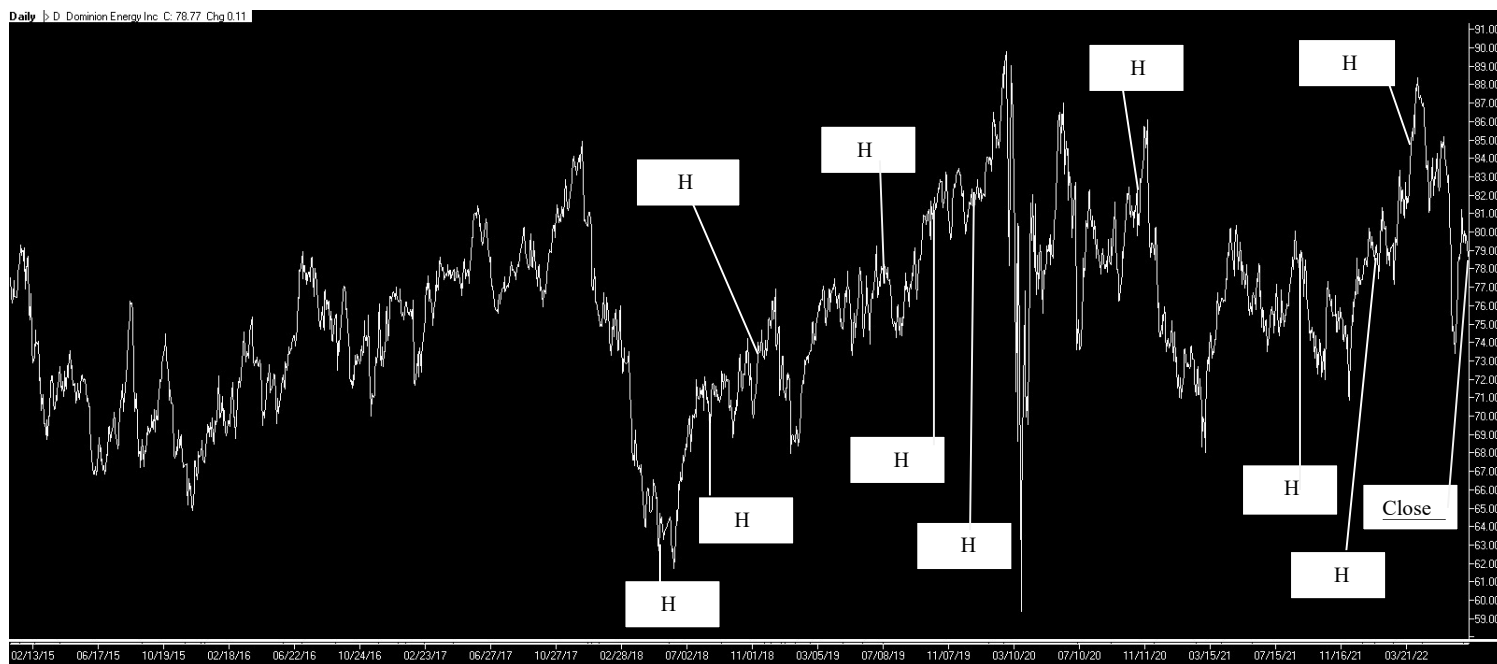
	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22e	3Q22e	4Q22e	2022e
Operating Revenue	\$3,870	\$3,038	\$3,176	\$3,880	\$13,964	\$4,279	\$3,146	\$3,458	\$3,828	\$14,711
Operating Expenses										
Electric fuel/other energy-related purchases	550	487	703	628	2,368	678	494	715	653	2,540
Purchased electric capacity	11	25	26	8	70	13	23	25	14	75
Purchased gas	484	121	60	418	1,083	645	112	94	426	1,277
Other operations & maintenance	1,082	1,216	702	1,037	4,037	1,016	906	742	1,109	3,773
Depreciation, depletion, & amortization	608	604	621	645	2,478	698	628	633	645	2,604
Other taxes	257	222	223	207	909	253	224	256	217	950
Total operating expenses	2,992	2,675	2,335	2,943	10,945	3,303	2,387	2,465	2,874	11,029
Income from operations	878	363	841	937	3,019	976	759	993	954	3,682
Other income	367	377	202	487	1,433	126	362	176	267	931
Income before interest & income taxes	1,245	740	1,043	1,424	4,452	1,102	1,121	1,169	1,221	4,613
Interest & related charges	53	518	407	376	1,354	174	418	368	388	1,348
Income before income taxes	1,192	222	636	1,048	3,098	928	703	801	833	3,265
Income taxes	212	47	35	225	425	236	147	168	174	725
Cont. operating income including non.con. Interests	980	269	601	823	2,673	692	556	267	659	2,174
net income discontinued operations	28	26	65	522	641	19	77	31	134	262
noncontrolling interests		10	12	4	26		14	12	7	33
Reported Earnings	\$1,008	\$285	\$654	\$1,341	\$3,288	\$711	\$651	\$665	\$827	\$3,101
Reported Earnings Per Share	\$1.23	\$0.33	\$0.79	\$1.63	\$3.98	\$0.83	\$0.80	\$0.82	\$1.02	\$3.47
Items excluded from operating earnings (net of taxes)	\$115	\$343	\$264	\$589	\$97	\$289	\$32	\$254	\$22	\$597
Operating Net Income	\$893	\$628	\$918	\$752	\$3,191	\$1,000	\$619	\$919	\$849	\$3,324
Operating Earnings Per Share-Diluted	\$1.09	\$0.76	\$1.11	\$0.90	\$3.86	\$1.18	\$0.76	\$1.13	\$1.02	\$4.09



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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 Energy

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)33%, (2) 67%, (3) 0%

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