

**September 14, 2017**

**CURRENT PRICE:** \$80.97  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 3.7%

**EPS Estimates - Non-GAAP**

	DEC 16A	DEC 17E
1Q	\$0.96	\$0.97A
2Q	\$0.73	\$0.67A
3Q	\$1.14	\$0.97
4Q	\$0.99	\$0.83
	<b>\$3.80</b>	<b>\$3.44</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$81.65-\$69.51**  
 SHARES OUTSTANDING: **628.1(M)**  
 MARKET CAP: **\$49,727(M)**  
 AVG. DAILY TRADING VOLUME: **2.24(M)**  
 S&P 500: **2,496**

**Valuation Data**

BOOK VALUE: **\$23.77**  
 PRICE TO BOOK: **3.3x**  
 DIVIDEND: **\$3.02**

**Dominion Energy (NYSE: D)**

*Reports 2Q17 earnings results*

**Highlights**

- 2Q17 operating earnings \$0.67/share vs. \$0.71/share during 2Q16
- Earnings hurt by unfavorable weather & lack of farmout transactions
- DM could contribute towards D annual dividend growth
- 2017 operating earnings guidance of \$3.40-\$3.80/share
- 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). Also, it provides electricity to 2.5 million customers in VA/NC. Power Generation operates the electric generation plants for D. Gas Infrastructure operates the natural gas pipeline/storage business, a liquefied natural gas terminal at Cove Pt. Maryland, and Dominion East Ohio. D recently purchased Questar adding regulated and unregulated gas businesses. On a combined basis, D now has 2.3 million natural gas utility customers in OH, UT, WV, & WY, 1.3 million retail energy/energy related customer accounts in 13 states, 14,400 miles of gas gathering/storage/transmission pipelines and 51,000 miles of gas distribution pipelines. Also, D owns 6,500 miles of electric transmission lines and 25,700 MW of electrical production in 11 states. Since 2003 D has grown its dividend from \$1.29/share to \$3.02/share and 2016's operating earnings improved to \$3.80/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.*



# EQUITY RESEARCH

## Recent Earnings

D reported 2Q17 operating earnings of \$0.67/share vs. 2Q16 operating earnings of \$0.71/share. The decline was due mainly to a decrease of Cove Point import contract revenues and the absence of a farm-out transaction. Partly offsetting these negatives were revenues from regulated growth projects, lower electric capacity expense, and the addition of Dominion Energy Questar. Total revenues rose to \$2.81 billion from \$2.60 billion, and total operating expenses increased to \$2.01 billion from \$1.82 billion. Operating income grew to \$801 million from \$781 million EBIT improved to \$861 million from \$853 million. 2Q17 GAAP earnings declined to \$0.62/share from \$0.73/share during 2Q16.

## SEGMENT RESULTS

Power Delivery reported operating income of \$259 million vs. \$222 million. The improvement occurred due to revenues rising to \$537 million from \$518 million, while operating expenses decreased to \$278 million from \$296 million. The negative weather impact on its service territory was offset by lower operating/maintenance expense. On the expense side, the decrease came from other operations/maintenance expense falling to \$87 million from \$123 million while electric fuel/other energy-related purchases was flat at \$1 million. DD&A rose to \$149 million from \$133 million and other taxes increased to \$41 million from \$39 million. Adjusted EBITDA improved to \$422 million from \$363 million and Power Delivery's contribution to overall earnings rose to \$0.20/share from \$0.17/share.

Total delivered electrical GWh increased 3.8% to 19,641 GWh from 18,920 GWh. This occurred due to increases in Residential (+1.0%), Commercial (+1.0%), and Government (-0.01%) and was partly offset by Industrial (-1.0%). Wholesale electric sales were flat.

Power Generation's produced operating income of \$349 million vs. \$336 million. The increase occurred as a decrease in revenues, \$1.51 billion vs. \$1.57 billion, were more than offset by a decrease in expenses, \$1.16 billion vs. \$1.23 billion. The decrease in revenues was due to unfavorable weather. Expenses had increases in other operations/maintenance (+\$7 million), DD&A (+\$27 million), and other taxes (+\$7 million). However, these were countered by decreases in electric fuel/other energy-related purchases (-\$54 million) and excess electric capacity (+\$57 million). Adjusted EBITDA improved to \$554 million from \$509 million while Power Generation's contribution to overall earnings rose to \$0.38/share from \$0.28/share.

Total merchant generation electric sales to NEPOOL Merchant Fleet increased to 4,170 GWh from 3,587 GWh and PM Merchant Fleet sales decreased to 1,973 GWh from 2,072 GWh.



# EQUITY RESEARCH

Gas Infrastructure's operating income rose to \$241 million from \$237 million. This was due to operating revenues improving to \$765 million from \$515 million and outdistanced operating expenses rising to \$523 million from \$278 million. Expenses were higher due to higher purchased gas (+\$55 million), other operations/maintenance (+\$118 million), DD&A (+\$63 million), and other taxes (+\$19 million). Adjusted EBITDA improved to \$423 million from \$336 million and Gas Infrastructure's contribution to overall earnings was flat at \$0.26/share.

Total gas distribution revenues rose to \$150 million from \$26 million with increases in Residential (+\$87 million), Commercial (+\$30 million), Industrial (+\$4 million), and other (+\$4 million). Regulated gas transportation revenues improved to \$144 million from \$127 million while storage revenues declined to \$4 million from \$5 million. 2Q17's figures include the operating results of Questar operations, recently acquired by D.

D has a majority ownership of Dominion Midstream Partners (DM-\$30.30). As a result, DM generated distributable cash flow of \$40.7 million to D and was 70% higher than 2Q16's distributable cash flow. Most of the increase came from the inclusion of Questar Pipeline's results during 2Q17.

## RECENT DEVELOPMENTS

The state of Connecticut has requested more information from D regarding the potential sale of the company's Millstone nuclear power plant and the affect it would have on the state's rate payers.

D believes the first LNG shipments from its Cove Point facility in MD will begin by the end September 2017 as construction is completed on the project.

US regulators at FERC released a mostly favorable final environmental impact statement on the proposed 600-mile Atlantic Coast Pipeline. D owns 48% of the pipeline along with Duke Energy (DUK-\$87.50) having a 47% stake and Southern Company (SO-\$50.40) having a 5% interest.

D recently raised its annual dividend 8% and believes it could potentially raise future dividends by an annual 8%-10% rate. This is based upon DM potentially adding \$7B-\$9B to D's cash flow-allowing for the projected dividend growth.



## Our Thoughts

D reported 2Q17 operating earnings of \$0.67/share vs. \$0.71/share during 2Q16. The decrease was due to unfavorable weather and the lack of farmout transactions experienced during recent quarters.

2Q17 GAAP earnings decreased to \$0.62/share from \$0.73/share million during 2Q16. The recent acquisition of Questar, adding regulated and non-regulated assets in the Western US, will expand D's geographic footprint and provide an opportunity to enter new energy markets and generate additional profits. Additionally, DM's cash flow contribution to D's balance sheet could generate annual earnings growth of 6%-8% from 2017-2020 and increase the common stock dividend. D's Board of Directors recently increased the annual dividend to \$3.02/share. During the 2Q17 earnings call D affirmed 2017 operating earnings guidance of \$3.40-\$3.80/share. We continue to rate D a HOLD given its relative high book value per share of 3.3x book, one of the highest in the utility sector, and trading at 23.0x our 2017 earnings estimate of \$3.44/share.

## 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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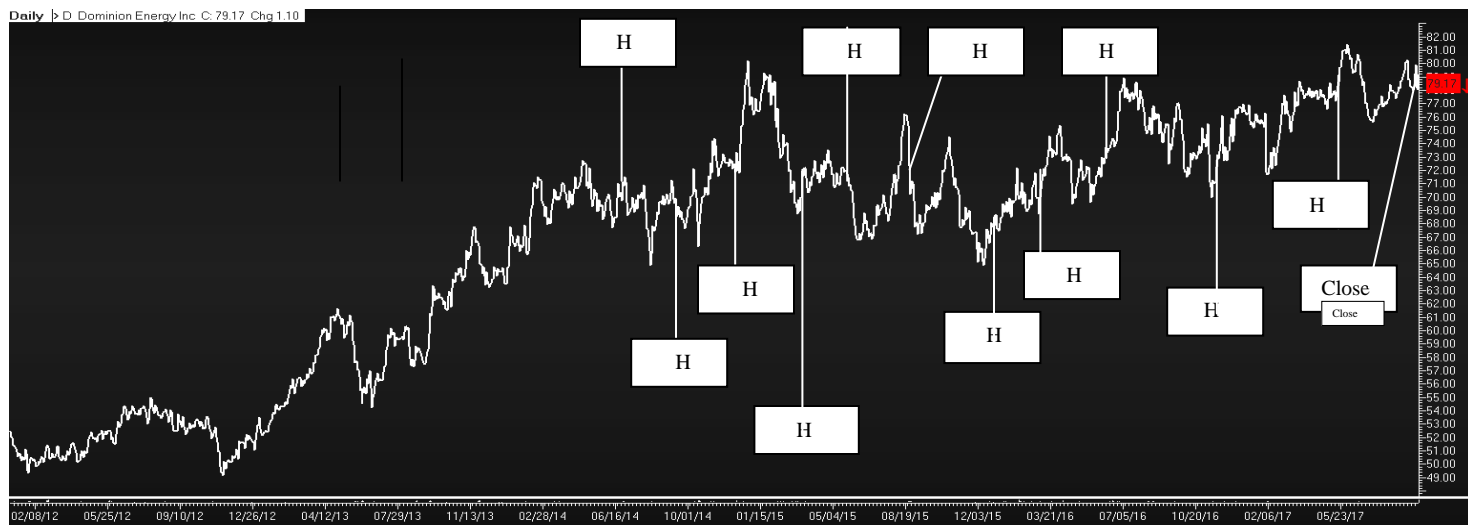


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# EQUITY RESEARCH

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17e	4Q17e	2017e
Operating Revenue	\$2,921	\$2,598	\$3,132	\$3,086	\$3,384	\$2,813	\$3,584	\$3,328	\$13,109
Operating Expenses									
Electric fuel/other energy-related purchases	634	551	606	542	575	498	658	546	2,277
Purchased electric capacity	68	45	6	8	-17	-12	12	22	5
Purchased gas	119	56	77	207	305	112	215	223	855
Other operations & maintenance	632	931	765	931	738	779	926	865	3,308
Depreciation, depletion, & amortization	360	447	400	369	469	467	457	398	1,791
Other taxes	159	148	145	125	189	168	154	147	658
Total operating expenses	1,972	1,817	1,987	2,267	2,259	2,012	2,362	2,201	8,834
Income from operations	949	781	1,145	819	1,125	801	1,222	1,127	4,275
Other income	52	72	63	61	116	60	69	29	274
Income before interest & income taxes	1,001	853	1,208	880	1,241	861	1,291	1,156	4,549
Interest & related charges	224	239	250	295	292	308	298	302	1,200
Income before income taxes	777	614	958	585	949	553	993	854	3,349
Income taxes	198	152	230	94	275	136	348	299	1,058
noncontrolling interests	7	10	38	34	42	27	34	31	134
Operating Earnings	\$572	\$452	\$690	\$457	\$611	\$421	\$611	\$524	\$2,167
Operating Earnings per Share	\$0.96	\$0.73	\$1.14	\$0.73	\$0.97	\$0.67	\$0.97	\$0.83	\$3.44
Items excluded from operating earnings (net of taxes)	48	12	25	161	\$21	\$31	\$105	\$55	\$212
Reported Net Income	\$524	\$440	\$605	\$618	\$632	\$390	\$716	\$579	\$2,317
Reported Earnings Per Common Share-Diluted	\$0.88	\$0.71	\$1.10	\$0.99	\$1.01	\$0.62	\$1.14	\$0.92	\$3.69
Average shares outstanding, diluted	598.2	617	626	627.1	628.1	628.1	628.1	628.1	628.1

## 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 Resources

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