



**October 11, 2019**

**CURRENT PRICE:** \$81.90  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 4.5%

**EPS Estimates - Non-GAAP**

	DEC 18A	DEC 19E
1Q	\$1.14	\$1.10A
2Q	\$0.86	\$0.78A
3Q	\$1.15	\$1.17
4Q	\$0.89	\$1.15
	<b>\$4.05</b>	<b>\$4.20</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$82.59-\$67.41**  
 SHARES OUTSTANDING: **802.6(M)**  
 MARKET CAP: **\$65,733(M)**  
 AVG. DAILY TRADING VOLUME: **3.71(M)**  
 S&P 500: **2,970**

**Valuation Data**

BOOK VALUE: **\$32.50**  
 PRICE TO BOOK: **2.52x**  
 DIVIDEND: **\$3.67**

**Dominion Energy (NYSE: D)**

*Earnings, Scana, & ACP/SCOTUS*

**Highlights**

- 2Q19 operating earnings \$0.77/share vs. \$0.86/share during 2Q18
- Scana operations included in recent results
- Taking ACP case to SCOTUS
- Shifting from 4 operating units to 5
- 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 transmission lines and 31,000 GW of electrical production. Since 2003 D has grown its dividend from \$1.29/share to \$3.67/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.*

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# EQUITY RESEARCH

## 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

Power Delivery reported operating income of \$270 million during 2Q18 vs. \$246 million during 2Q18. The increase came from higher operating revenues (\$591 million vs. \$534 million) and offset a rise in operating expenses (\$270 million vs. \$246 million). The rise in expenses occurred with other operations/maintenance (+\$34 million), DD&A (+\$6 million), other taxes (+\$3 million) while electric fuel/other energy-related purchases was flat. Reported segment income and adjusted EBITDA both improved \$11 million to \$156 million and Power Delivery's contribution to D's overall earnings decreased to \$0.20/share from \$0.23/share.

Total regulated electric sales rose 38.0% to \$2.45 billion from \$1.78 billion. The improvement came from sales increases in industrial (+79.3%), wholesale (78.3%), commercial (39.8%), residential (+38.8%), and government/other retail (+1.9%).

Total delivered GWh increased 27.0% to 26,409 GWh from 20,789 GWh. This occurred from higher deliveries to industrial (+60.1%), wholesale (+33.7%), commercial (+27.6%), residential (+25.3%), and government/other retail (+3.3%).

Power Generation reported operating income of \$380 million vs. \$436 million. The decrease came from a decline in revenues to \$1.60 billion from \$1.64 billion and a rise in operating expenses to \$1.22 billion from \$1.20 billion. Operating expenses rose due to higher other operations/maintenance (+\$40 million), other taxes (+\$6 million), DD&A (+\$5 million), and were partly offset by lower electric fuel/other energy-related purchases (-\$21 million) and purchased electric capacity (-\$9 million). Reported segment income and adjusted EBITDA both decreased to \$250 million from \$276 million and Power Generation's contribution to D's overall earnings declined to \$0.31/share from \$0.42/share.

Gas Infrastructure produced operating income of \$303 million vs. \$289 million as a revenue decline (-\$12 million) was outpaced by lower operating expenses (-\$26 million). The decrease in operating expenses came from other



operations/maintenance (-\$45 million) and electric fuel/other energy-related purchases (-\$10 million). These were partly offset by higher other taxes (+\$13 million), DD&A (+\$4 million), and purchased gas (+\$2 million). Operating and adjusted EBITDA declined to \$247 million from \$249 million and Gas Infrastructure contribution to D's overall earnings fell to \$0.31/share from \$0.38/share.

Regulated gas revenues increased to \$275 million from \$151 million and regulated gas transmissions decreased to \$413 million from \$416 million. LDC natural gas deliveries rose to 200,078 mmcf from 176,318 mmcf.

Southwest Energy (acquired through SCANA) generated operating income of \$169 million during 2Q19 compared to \$231 million during 1Q19. When comparing these two periods, this unit produced adjusted EBITDA of \$82 million vs. \$371 million and the contribution to D's overall earnings decreased to \$0.10/share from \$0.17/share.

Corporate and Other reported operating income of (\$661 million) during 2Q19 vs. (\$229 million) during 2Q18, reflecting the inclusion of Scana operations. This unit's contribution to D's overall earnings improved to (\$0.15)/share vs. (\$0.17/share), due to GAAP earnings adjustments of \$565 million.

## RECENT DEVELOPMENTS

The 4<sup>th</sup> US Circuit Court of Appeals vacated an Atlantic Coast Pipeline (ACP) permit, granted by the US Fish & Wildlife Service, causing D, Duke Energy (DUK-\$), and Southern Co. (SO-\$) to suspend the construction of this pipeline. These companies are appealing the decision to the US Supreme Court in hopes of a favorable ruling allowing for the commencement of pipeline construction. D believes a SCOTUS decision could come during 1H20. The delays in building of the ACP has raised its original estimated construction cost by \$500 million to \$1 billion.

In anticipation of D unveiling a new organizational/reporting changes, later this year, the company named Robert Blue and Diane Leopold as co-COOs, starting on 12/1/19. There will be five new operating units: Dominion Energy Virginia, Contracted Generation, Gas Transmission & Storage, Gas Distribution, and Dominion Energy South Carolina.

Other recent managerial announcements include D promoting 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.



D filed a \$594 million plan with Virginia regulators to upgrade its state power grid with a major feature of installing “smart meters” and allow for wider use of solar/wind farms.

D purchased two solar generating projects in VA from Macquarie Subsidiary, Savion LLC, with a combined installed capacity of 95 MW expected to be operational by 2020.

Recently, D withdrew its application for the 120K decatherms/day Sweden Valley pipeline expansion after the natural gas supplier “walked away from its commitments” following delays by the Federal Energy Regulatory Commission.

Management intends to build 220 turbine offshore wind farm of the coast of VA at a cost of ~\$7 billion. D expects it will deliver 880 MW of energy by 2024 and 2,600 MW by 2026.

D plans to build four battery storage pilot projects in VA totaling 16 MW. These proposed lithium in projects will cost ~\$33 million.

## Our Thoughts

D reported operating earnings of \$0.77/share during 2Q19 vs. \$0.86/share during 2Q18 and adjusted earnings of \$0.05/share vs. \$0.69/share. These numbers reflect charges and the inclusion of expenses associated with the recent acquisition of Scana Energy. Given the addition of Scana’s operating units, and those from the Questar purchase, D plans to reformulate the reporting of its earnings during the coming months. Management did reconfirm 2019 operating earnings of \$4.05 - \$4.20/share, followed by a ~5% annual growth rate.

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. While 2Q19 produced a decent earnings report, D’s stock moved higher since our last report as Wall Street moved into defensive stock sectors, like utilities. This occurred over fears of a potential recession materializing in the US during the next year. Interestingly, so much money has flowed into this sector that currently many utility stocks trade at record levels with 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%. 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, 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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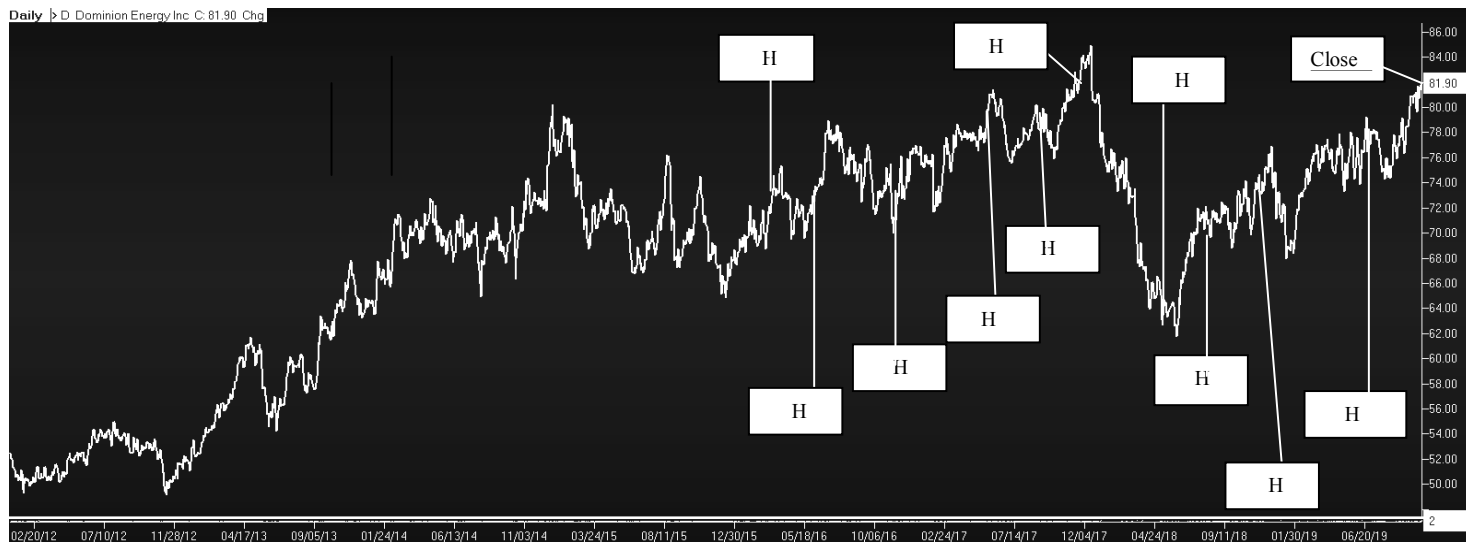
# EQUITY RESEARCH

Dominion Resources (in millions, except per share data)										
	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19	3Q19e	4Q19e	2Q19e
Operating Revenue	\$3,466	\$3,088	\$3,451	\$3,361	\$13,366	\$3,858	\$3,970	\$3,677	\$3,423	\$14,174
Operating Expenses										
Electric fuel/other energy-related purchases	744	623	761	686	2,814	791	718	786	695	2,949
Purchased electric capacity	14	23	50	35	122	39	24	63	38	165
Purchased gas	340	64	5	236	645	730	227	29	249	1,091
Other operations & maintenance	796	1,007	782	896	3,481	1,837	1,595	814	886	4,434
Depreciation, depletion, & amortization	498	463	526	513	2,000	651	661	526	548	2,249
Other taxes	199	166	177	161	703	292	284	159	175	821
Total operating expenses	2,591	2,346	2,301	2,527	9,765	4,340	3,509	2,377	2,591	11,709
Income from operations	875	742	1,150	834	3,601	-482	461	1,300	832	2,465
Other income	100	185	373	363	1,021	388	92	249	373	1,377
Income before interest & income taxes	975	927	1,523	1,197	4,622	-94	553	1,549	1,205	3,842
Interest & related charges	314	361	378	440	1,493	469	452	478	474	1,897
Income before income taxes	661	566	1,145	757	3,129	-563	101	1,071	781	1,995
Income taxes	135	88	262	95	500	114	43	245	167	687
noncontrolling interests	23	29	29	21	102	-3	-4	-28	-24	-81
Reported Earnings	\$503	\$449	\$854	\$641	\$2,527	(\$680)	\$54	\$798	\$540	\$1,177
Reported Earnings Per Share	\$0.77	\$0.69	\$1.30	\$0.97	\$3.74	(\$0.86)	\$0.05	\$1.01	\$0.68	\$1.48
Items excluded from operating earnings (net of taxes)	\$238	\$111	\$96	\$49	\$204	\$1,553	\$565	\$130	\$372	\$2,158
Operating Net Income	\$741	\$560	\$758	\$592	\$2,651	\$873	\$619	\$928	\$912	\$3,335
Operating Earnings Per Share-Diluted	\$1.14	\$0.86	\$1.15	\$0.89	\$4.05	\$1.10	\$0.77	\$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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- (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.

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