



August 30, 2021

CURRENT PRICE: \$78.30
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 3.2%

EPS Estimates - Non-GAAP

	DEC 20A	DEC 21E
1Q	\$0.92	\$1.09A
2Q	\$0.73	\$0.76A
3Q	\$1.08	\$0.96
4Q	\$0.81	\$1.03
	\$3.54	\$3.86

Trading Data

52-WEEK PRICE RANGE: **\$86.95-\$67.85**
 SHARES OUTSTANDING: **806.6(M)**
 MARKET CAP: **\$63,157(M)**
 AVG. DAILY TRADING VOLUME: **3.12(M)**
 S&P 500: **4,529**

Valuation Data

BOOK VALUE: **\$29.89**
 PRICE TO BOOK: **2.62x**
 DIVIDEND: **\$2.52**

Dominion Energy (NYSE: D)

Reports 2Q21 Earnings

Highlights

- 2Q21 operating earnings of \$0.76/share vs. \$0.73/share during 2Q20
- Operating income improved at 3 of 4 operating units
- Shifting towards a “greener” generation mix
- Maintains 2021 operating earnings guidance of \$3.74-\$4.00/share
- 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: Dominion Energy Virginia, Gas Distribution, Dominion Energy South Carolina, & Contracted Generation. D purchased Questar, in 2016, adding regulated and unregulated gas businesses. D recently completed its purchase of SCANA. 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. Also, D owns 10,200 miles of electric transmission lines and 31,000 GW of electrical production. Since 2003 D had grown its dividend from \$1.29/share to \$3.76/share through 2019, however, it was reduced to \$2.52/share following the cancellation of the Atlantic Coast Pipeline in 2020. Management recently announced it was selling its gas gathering/storage/pipeline assets to Berkshire Hathaway (BRK.A-\$429,720.00).

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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Recent Earnings

D reported 2Q21 adjusted earnings of \$0.33/share vs. (\$1.52)/share during 2Q20. The improved results were mainly due to the absence of charges (~\$2 billion) related to D's cancellation of the Atlanta Coast Pipeline (ACP) project during 2Q20. When comparing the two quarters, D's operating earnings improved to \$0.76/share from \$0.73/share. The increase was attributable to the reduction in D's outstanding shares. There were operating income increases at D's Gas Distribution, Dominion Energy South Carolina, Contracted Assets, and Corporate & other. These gains offset a decline in operating income in the Dominion Energy Virginia unit. D's operating revenues decreased to \$3.04 billion from \$3.11 billion and operating expenses rose to \$2.68 billion from \$2.30 billion, mainly due to asset impairment charges. 2Q21's net income increased to \$285 million from (\$1.17 billion) due to the absence of ACP charges taken during 2Q20.

SEGMENT RESULTS (2Q21 vs. 2Q20)

DOMINION ENERGY VIRGINIA: Reported operating earnings fell to \$431 million from \$437 million. The decrease occurred as lower revenues (\$1.75 billion vs. \$1.81 billion), and higher expenses (\$1.15 billion vs. \$1.11 billion) were mostly offset by a lower taxes (\$59 million vs. \$136 million). Increased expenses came from higher other operations/maintenance (+\$24 million), DD&A (+\$17 million), purchased electricity capacity (+\$10 million), and was partly offset by lower electric fuel/other energy-related purchase (-\$18 million), while other taxes was flat at \$85 million. Dominion Energy Virginia's contribution to overall earnings rose to \$0.53/share vs. \$0.52/share.

GAS DISTRIBUTION: Operating earnings increased to \$95 million from \$87 million as growth in operating revenues (\$455 million vs. \$402 million) outpaced larger operating expenses (\$361 million vs. \$313 million). Higher operating expenses came from increases in purchased gas (+\$17 million), other operations/maintenance (+\$17 million), DD&A (+\$7 million), and other taxes (+\$7 million). Gas Distribution's contribution to overall earnings per share rose to \$0.12/share from \$0.10/share.

DOMINION ENERGY SOUTH CAROLINA: Operating earnings improved to \$84 million from \$75 million. This occurred as growth of operating revenues (\$681 million vs. \$635 million) more than offset higher operating expenses (\$526 million vs. \$485 million). The rise in operating expenses resulted from increases in other operations/maintenance (+\$19 million), purchased gas (+\$18 million), purchased electric capacity (+\$4 million), DD&A (+\$1 million), and electric fuel/other energy-related purchases (+\$1 million), while being partly offset by lower other taxes (-\$2 million). Dominion Energy South Carolina's contribution to overall earnings improved to \$0.84/share from \$0.75/share.

CONTRACTED ASSETS: Operating earnings rose to \$104 million from \$72 million due to revenue growth (\$274 million vs. \$249 million) and decreased operating expenses (\$190 million vs. \$233 million) when comparing 2Q21 to 2Q20. The fall in operating expenses came from other operations/maintenance (-\$30 million), purchased gas (-\$7



million), electric fuel/other-energy related purchases (-\$2 million), DD&A (-\$2 million), and other taxes (-\$2 million). Contracted Assets contribution to overall earnings increased to \$0.13/share from \$0.09/share.

CORPORATE & OTHER: Produced an operating loss of \$429 million vs. an operating loss of \$1.84 billion. 2Q20's results included charges related to the termination of the ACP and higher expenses. Operating revenue fell to \$120 million from \$242 million and operating expenses grew to \$690 million from \$393 million. Corporate & Other's contribution to overall earnings was (\$0.55)/share vs. (\$2.32)/share.

2Q21 EARNINGS CONFERENCE CALL NOTES: Following the release of 2Q21's earnings D held an earnings conference call. Below, in our opinion, are key points made during the call by management.

- Reaffirmed FY 2021 operating earnings guidance of \$3.74-\$4.00/share & \$0.95-\$1.10/share during 3Q21.

- 4Q21 earnings could benefit from normal course regulated rider growth, positive impacts of the South Carolina electric rate settlement, strengthening electric sales, margin improvement from D's Millstone facility, controlling costs, and tax timing issues.

- Management's goal is to grow earnings 6.5% annually through 2025 supported by a \$32 billion five-year growth capital plan. 80% of the capital investment will be used to reduce emissions. D's overall goal is to reduce carbon emissions to 0% by 2050.

- D anticipates the annual common stock dividend could increase 6% per year based on a dividend payout ratio of 65%.

- Weather-normalized electric sales increased 1.2% in Virginia and 3.2% in South Carolina, when comparing 2Q21 to 2Q20. D said improvement came from higher demand in the industrial and commercial segments overcame declines among residential users as the Covid pandemic waned and people returned to work. Management expects electric sales in VA & SC to grow 1.0%-1.5% annually.

- D anticipates it will continue to develop its offshore wind projects with cost expectations of generating electricity at \$80-\$90 per megawatt-hour.

- The Questar Pipeline was going to be sold to the Berkshire Hathaway Eagle group. However, anti-trust concerns put this sale on hold. D believes other parties are interested in acquiring the Questar Pipeline & feels a deal to sell it may occur by year end 2021.

- Fitch Rating Agency upgraded its rating on D's South Carolina credit rating from BBB+ to A-.

- D announced a successful syndication of a \$6.9 billion ESG related sustained-link credit facilities.



- D's 2.6 gigawatt Coastal Virginia offshore wind project was granted its "notice of intent" from the Bureau of Ocean Energy Management this past July.
- The company's solar projects in Virginia currently amount to 4,000 megawatts of future electrical generation. This is in addition to 1,000 megawatts of solar production already in service.
- The Nuclear Regulatory Commission granted permission for D to extend the life of two nuclear units at the Surry Power Plant for an additional 20 years.
- D received commission approval in Virginia for its Regional Greenhouse Gas Initiative (RIGI). According to Virginia state law this RIGI, along with other state RIGIs, was formed to promote an emission credits marketplace with a goal of reducing greenhouse gases over the long term.
- South Carolina Public Service Commission approved a proposed comprehensive settlement in the pending general electric rate case for the state. The Commission also approved D's modified IRP which calls for the retirement of all coal-fired generation in South Carolina by 2030.
- Vice President of D's Investors Relations, Steven Ridge, will relocate to Salt Lake City, UT, to become the VP/GM of D's western natural gas distribution operations. David McFarland will assume the position of head of Investor Relations.

Our Thoughts

A decent earnings report for D reporting 2Q21 operating earnings of \$0.76/share vs. \$0.73/share and adjusted earnings of \$0.33/share vs. (\$1.52)/share. The difference between D's GAAP earnings and operating earnings for 2Q21 are due to mark-to-market impact of economic hedging activities, unrealized changes in the value of the company's nuclear decommissioning trust fund, contribution from the Questar pipeline (in process of being sold), and other adjustments.

The company continues to pivot away from its prior earnings growth plan, which relied heavily upon a natural gas strategy, and the now-cancelled ACP, towards "renewable green generation"/lowering greenhouse emissions. D's forward guidance is annual earnings growth by an average of 6.5%, and increasing dividends, based on future earnings growth. Investors should note D cut its dividend by a third following the cancellation of ACP in order to strengthen its balance sheet. We continue to rate D a HOLD with the shares trading at 20.3x times our 2021 operating earnings estimate of \$3.86/share and trading at 2.6x book value per share.



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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Dominion Resources
(in millions, except per share data)

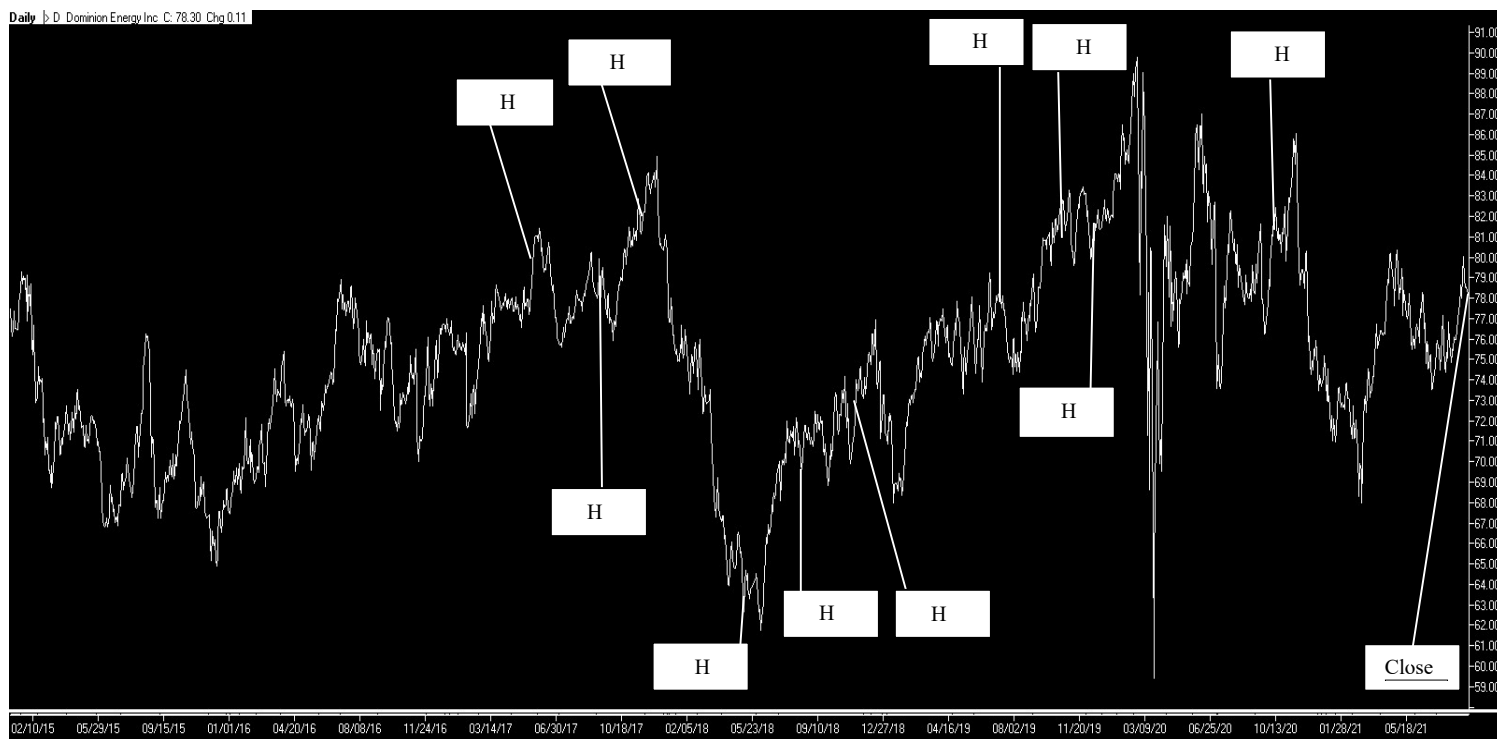
	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21e	4Q21e	2021e
Operating Revenue	\$3,938	\$3,106	\$3,607	\$3,521	\$14,172	\$3,870	\$3,038	\$3,694	\$3,617	\$14,219
Operating Expenses										
Electric fuel/other energy-related purchases	657	507	594	485	2,243	550	487	621	584	2,242
Purchased electric capacity	2	11	23	17	53	11	25	26	16	78
Purchased gas	434	90	37	328	889	484	121	267	253	1,125
Other operations & maintenance	1,659	896	2,128	1,046	5,729	1,082	1,216	1,233	1,108	4,639
Depreciation, depletion, & amortization	578	578	595	581	2,232	608	604	605	602	2,419
Other taxes	240	220	203	208	871	257	222	226	206	911
Total operating expenses	3,570	2,302	3,580	2,665	12,117	2,992	2,675	2,978	2,779	11,424
Income from operations	368	804	27	856	2,055	878	363	716	838	2,795
Other income	-454	500	281	406	733	367	377	385	394	1,523
Income before interest & income taxes	-86	1,304	308	1,262	2,788	1,245	740	1,101	1,232	4,318
Interest & related charges	432	398	306	241	1,377	53	518	394	386	1,351
Income before income taxes	-518	906	2	1,021	1,411	1,192	222	707	846	2,967
Income taxes	50	37	110	206	83	212	47	127	152	444
Cont. operating income including non.con. Interests	-468	869	225	-125	-1,878	980	269	580	694	2,523
net income discontinued operations	229	-2,001	19	8	149	28	26	27	4	85
noncontrolling interests	31	37					10			10
Reported Earnings	(\$270)	(\$1,169)	\$356	\$682	(\$401)	\$1,008	\$285	\$607	\$698	\$2,598
Reported Earnings Per Share	(\$0.34)	(\$1.52)	\$0.41	\$0.82	(\$0.57)	\$1.23	\$0.33	\$0.75	\$0.86	\$3.17
Items excluded from operating earnings (net of taxes)	\$1,058	\$1,799	\$560	(\$10)	\$3,407	\$115	\$343	\$167	\$133	\$758
Operating Net Income	\$788	\$630	\$916	\$7	\$3,006	\$893	\$628	\$774	\$831	\$3,126
Operating Earnings Per Share-Diluted	\$0.92	\$0.73	\$1.08	\$0.81	\$3.54	\$1.09	\$0.76	\$0.96	\$1.03	\$3.86



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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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