

**August 28, 2023**

**CURRENT PRICE:** \$48.93  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 5.5%

**EPS Estimates - Non-GAAP**

	DEC 22A	DEC 23E
1Q	\$1.18	\$0.99A
2Q	\$0.77	\$0.53A
3Q	\$1.11	\$0.72
4Q	\$1.06	\$0.61
	<b>\$4.11</b>	<b>\$2.85</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$84.45-\$47.41**  
 SHARES OUTSTANDING: **836.2(M)**  
 MARKET CAP: **\$40,915(M)**  
 AVG. DAILY TRADING VOLUME: **4.00(M)**  
 S&P 500: **4,433**

**Valuation Data**

BOOK VALUE: **\$31.83**  
 PRICE TO BOOK: **1.54x**  
 DIVIDEND: **\$2.67**

**Dominion Energy (NYSE: D)**

*Awaiting Business Strategy Review*

**Highlights**

- 2Q23 operating earnings of \$0.53/share vs \$0.77/share in 2Q22
- Management reviewing ongoing business strategy
- Sold Cove Point equity interest for \$3.3 billion
- Provided 3Q23 guidance-none for FY23
- 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 4 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 million total energy/energy related customers in 15 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.*



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## Recent Earnings

D reported 2Q23 operating earnings \$0.53/share vs. \$0.77/share during 2Q22. The decline came mainly from cooler-than-normal weather and outages at the Millstone power plant. Operating income fell to \$468 million from \$658 million. Income from operations declined at Dominion Energy VA, Gas Distribution, Dominion Energy SC, and Contracted Assets, while improving at Corporate & Other. Adjusted operating earnings improved to \$0.69/share from (\$0.58/share) when comparing the two quarters. 2Q23's adjusted results include positive non-cash mark-to-market impact of economic hedging activities and unrealized gains in the value of D's nuclear decommissioning trust fund. 2Q22's adjusted results include a \$1.1 billion charge for non-regulated asset impairments and regulated asset retirements. Overall operating revenues rose to \$3.79 billion from \$3.60 billion and operating expenses decreased to \$3.07 billion from \$3.91 billion.

### SEGMENT RESULTS (2Q23 VS. 2Q22):

**DOMINION ENERGY VIRGINIA:** Both reported and operating earnings decreased to \$391 million from \$440 million. Revenues rose to \$2.25 billion from \$2.17 billion while operating expenses increased to \$1.60 billion from \$1.47 billion. The rise in operating expenses came from electric fuel/other energy-related purchases (+\$173 million) and DD&A (+\$6 million). These were partly offset by lower other operations/maintenance expenses (-\$23 million) and other taxes (-\$15 million). Higher operating expenses caused a decline in income from operations (\$651 million vs. \$701 million) and Dominion Energy VA's contribution to overall earnings was \$0.47/share vs. \$0.54/share.

**GAS DISTRIBUTION:** Reported and operating earnings declined to \$103 million from \$125 million as results were impacted by higher interest expenses (+\$19 million). Operating revenues rose \$61 million while operating expenses increased \$68 million. Higher expenses came from purchased gas (+\$60 million), DD&A (+\$6 million), and other operations/maintenance (+\$2 million) while being partly offset by lower other taxes (-\$2 million). Higher operating expenses caused income from operations to fall (\$128 million vs. \$133 million) and Gas Distribution's contribution to overall earnings was \$0.12/share vs. \$0.15/share.

**DOMINION ENERGY SOUTH CAROLINA:** Reported and operating earnings fell to \$68 million from \$124 million. Results were affected by lower revenues, higher operating costs, and increased interest expenses. Operating revenues decreased to \$773 million from \$815 million and operating expenses increased to \$626 million from \$616 million. The rise in operating expenses came from electric fuel/other energy-related purchases (+\$38 million), DD&A (+\$5 million), other taxes (+\$3 million), and other operations/maintenance (+\$1 million). These were partly offset by lower purchased gas (-\$35 million) and purchase electric capacity (-\$1 million). Lower revenues and higher operating expenses caused a decrease in income from operations (\$147 million vs. \$200 million) and Dominion Energy South Carolina's contribution to overall earnings declined to \$0.08/share from \$0.15/share.

**CONTRACTED ASSETS:** Reported and operating earnings fell to \$11 million from \$20 million. Results were affected by lower revenues and higher interest expense. Operating revenues decreased to \$132 million from \$167 million while operating expenses decreased to \$203 million from \$211 million. Lower operating expenses came from DD&A (-\$8 million) and electric fuel/other energy-related purchases (-\$3 million) and were partly offset by



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higher other taxes (+\$2 million) and other operations/maintenance (+\$1 million). Operating income decreased to -\$71 million from -\$44 million and Contracted Assets contribution to overall earnings fell to \$0.01/share from \$0.02/share.

**CORPORATE & OTHER:** Reported earnings improved to \$26 million from -\$1.1 billion. Last year's quarter included a \$1 billion asset impairment charge. Operating revenues rose to \$261 million from \$108 million while operating expenses fell to \$394 million from \$1.42 billion. Income from operations increased to -\$133 million from -\$1.3 billion and Corporate & Other's contribution to overall earnings declined to (\$0.15)/share from (\$0.09)/share.

## 2Q23 EARNINGS CONFERENCE CALL NOTES:

Management said it is continuing a strategic business review & will announce their findings during D's Investors Day during 3Q23. Management reiterated its goal of selling assets, keeping its current debt ratings with the credit rating agencies, & maintaining the common stock dividend.

Proceeds from the recent sale of D's remaining equity interest in the Cove Point LNG Facility will be used to reduce debt. Net of taxes, management expects the sale to generate \$3.3 billion of cash.

D provided 3Q23 operating earnings guidance of \$0.72-\$0.87/share, however, due to its ongoing business review, gave no guidance for 4Q23 nor FY23. 3Q23 results are expected to be negatively impacted, when compared to 2Q22, by the removal of Cove Point (as of 7/1), higher interest expense, and rider revenue reductions. Management stated interest expense may decline later this year due to retirement of debt at the parent level.

2Q23 earnings results were negatively impacted by cooler-than-normal weather and outages at the Millstone Power Station. Combined, these two factors hurt earnings by \$0.16/share. Results were also hurt by higher interest expense created by this past year's increase in interest rates.

PJM projections estimate 5% per year load growth each summer for the next ten years. Weather normalized sales in VA rose 5% during the past 12 months and D anticipates a 5% growth rate in D's VA service territory for 2023.

D's gas distribution unit has seen year-over-year customer growth of 2.4% in NC & 2.3% in UT due to economic growth.

A new Virginia law provides state residents with an approximate \$14/month reduction in electric bills with half coming from the end of certain riders. The other half will come from downward adjustments to the component of electric rates which recovers the cost of power station fuel and purchased power. As a result, the VA Public Commission allowed this interim adjustment while considering fuel securitization proposed by D this past July. Potentially, it would allow certain unrecovered fuel costs to be paid off over time. A final order is expected during 4Q23.



This past July, the SEC approved D's updated offshore wind rider allowing the company annual revenue requirement of \$271 million for jurisdictional customers.

## Our Thoughts

Since last August D's shares have fallen approximately 45% due Wall Street worries about future earnings growth. Another concern is a potential credit ratings downgrade of D's debt by the rating agencies. To this end, D recently announced the sale of its equity interest in the Cove Point LNG facility for approximately \$3.5 billion (proceeds will be used to pay down debt) and management began a strategic business review aimed at setting a platform for future earnings growth, improving its debt situation issues, and maintaining its annual dividend. Results of this strategic review is expected to be released during 3Q23.

Wall Street now speculates D will sell more asset sales & exit businesses which hinder earnings growth, with sale proceeds expected to further reduce company debt levels. Also, investors wait to see what happens with the current annual dividend of \$2.67/share-will it be reduced or maintained at current levels?

Our thoughts are, given how Wall Street dislikes uncertainty, if D comes with a plan to reduce debt, grow future earnings, and maintain the existing dividend (or slightly reduce it), then investors may come back into the stock & push the shares higher. However, failure to do so may create further selling pressure on this stock. We are maintaining our HOLD rating on D awaiting results of management's strategic business review and how it plans to proceed into the future.



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## **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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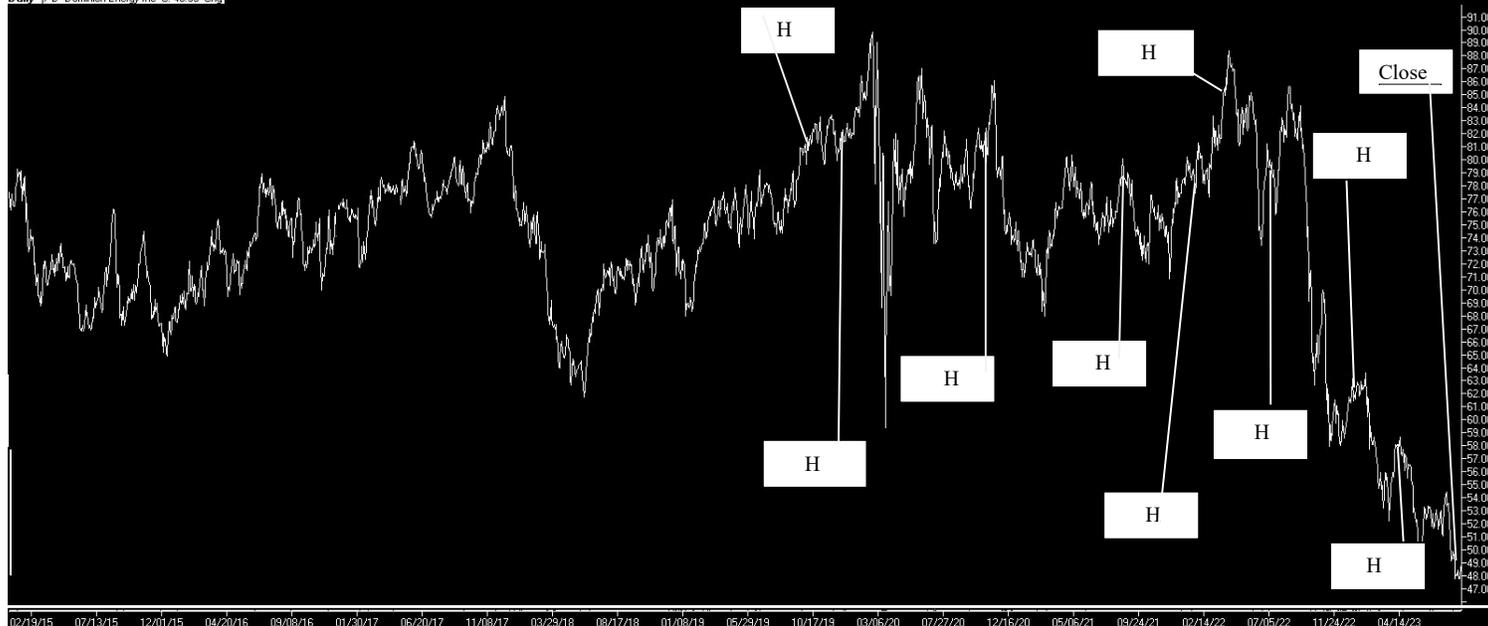
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Dominion Resources  
(in millions, except per share data)

	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23e	4Q23e	FY23e
Operating Revenue	\$4,279	\$3,596	\$4,386	\$4,913	\$17,174	\$5,212	\$3,794	\$4,522	\$5,129	\$18,657
Operating Expenses										
Electric fuel/other energy-related purchases	678	730	1,217	1,086	3,711	1,022	939	1,221	1,283	4,465
Purchased electric capacity	13	16	16	14	59	8	15	13	16	52
Purchased gas	645	202	138	597	1,582	764	227	194	686	1,871
Other operations & maintenance	1,016	2,036	985	2,436	6,473	1,018	963	1,012	1,278	4,271
Depreciation, depletion, & amortization	698	695	727	710	2,830	720	706	737	726	2,889
Other taxes	253	235	231	204	923	275	222	241	237	975
Total operating expenses	3,303	3,914	3,314	5,047	15,578	3,807	3,072	3,418	4,226	14,521
Income from operations	976	-318	1,072	-134	1,596	1,445	722	1,104	903	4,174
Other income	126	-204	162	339	423	364	415	227	323	1,329
Income before interest & income taxes	1,102	-522	1,234	205	2,019	1,809	1,137	1,331	1,226	5,503
Interest & related charges	174	47	329	416	966	586	430	373	423	1,812
Income before income taxes	928	-569	905	-211	1,053	1,223	707	956	803	3,689
Income taxes	236	117	124	175	68	221	121	211	154	707
Cont. operating income including non.con. Interests	692	-452	781	-36	985	1,002	586	745	649	2,982
net income discontinued operations	19	1	3	-6	9	-5	13			8
noncontrolling interests										
Reported Earnings	\$711	(\$453)	\$778	(\$42)	\$994	\$997	\$599	\$745	\$649	\$2,990
Reported Earnings Per Share	\$0.83	(\$0.58)	\$0.91	(\$0.07)	\$1.09	\$1.17	\$0.69	\$0.89	\$0.78	\$3.53
Items excluded from operating earnings (net of taxes)	\$289	\$1,111	\$166	\$945	\$2,511	\$148	\$131	\$139	\$143	\$561
Operating Net Income	\$1,000	\$658	\$944	\$903	\$3,505	\$849	\$468	\$606	\$506	\$2,429
Operating Earnings Per Share-Diluted	\$1.18	\$0.77	\$1.11	\$1.06	\$4.11	\$0.99	\$0.53	\$0.72	\$0.61	\$2.85

## Important Disclosures

Daily | D | Dominion Energy Inc. | 48.93 | Clr



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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