



January 12, 2022

CURRENT PRICE: \$79.32
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	\$1.11A
4Q	\$0.81	\$0.90
	\$3.54	\$3.86

Trading Data

52-WEEK PRICE RANGE: \$81.08-\$67.85
SHARES OUTSTANDING: 810.0(M)
MARKET CAP: \$64,249(M)
AVG. DAILY TRADING VOLUME: 3.21(M)
S&P 500: 4,726

Valuation Data

BOOK VALUE: \$2.61
PRICE TO BOOK: 30.3x
DIVIDEND: \$2.67

Dominion Energy (NYSE: D)

Turning into 2022

Highlights

- 3Q21 operating earnings of \$1.11/share vs. \$1.08/share during 3Q20
- Raised annual dividend 6% to \$2.67/share
- Shifting towards a greener/renewables business strategy
- Narrowed 2021 operating earnings guidance to \$3.80-\$3.90/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 annual dividend from \$1.29/share to \$3.76/share. However, it was reduced 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.

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 3Q21 adjusted earnings of \$0.79/share vs. \$0.41/share during 3Q20. The improvement was mainly due to absence of asset impairment and other charges taken during 3Q20. When comparing the two quarters, operating earnings improved to \$1.11/share from \$1.08/share, as three of D's five operating units profit results were flat (Dominion Energy Virginia, Gas Distribution, Dominion Energy South Carolina) while two units (Contracted Assets, Corporate & Other) showed improvement in quarterly results. D's overall revenues declined to \$3.18 billion from \$3.61 billion and total operating expenses fell to \$2.33 billion from \$3.58 billion. Income from continuing operations rose to \$601 million from \$112 million and reported earnings increased to \$654 million from \$356 million. Per share results were positively impacted by fewer outstanding shares.

SEGMENT RESULTS (3Q21 vs. 3Q20)

DOMINION ENERGY VIRGINIA: Reported operating earnings declined to \$599 million from \$613 million. This occurred as an increase in revenues (\$2.33 billion vs. \$2.25 billion) was not enough to offset a rise in operating expenses (\$1.43 billion vs. \$1.34 billion). Increased expenses came from higher electric fuel/other energy-related purchases (+\$92 million), DD&A (+\$19 million), purchased electric capacity (+\$14 million), and other taxes (+\$1 million). These negatives were partly offset by lower other operations/maintenance (-\$27 million) expense. Income from operations decreased to \$897 million from \$918 million. Dominion Energy Virginia's contribution to overall earnings was flat at \$0.74/share.

GAS DISTRIBUTION: Reported operating earnings rose to \$69 million from \$64 million. The improvement came from revenues increasing to \$373 million from \$314 million, and outpacing higher operating expenses, which rose to \$314 million from \$263 million. Higher expenses resulted from higher purchased gas (+\$21 million), other taxes (+\$11 million), DD&A (+\$10 million), and other operations/maintenance (+\$9 million). Income from operations improved to \$59 million from \$51 million. Gas Distribution's contribution to overall earnings was flat \$0.08/share.

DOMINION ENERGY SOUTH CAROLINA: Reported operating earnings decreased to \$151 million from \$157 million. The decline was due to higher segment income tax expense (+\$12 million). Revenues rose to \$800 million from \$759 million while operating expenses rose to \$559 million from \$524 million. Higher operating expenses resulted from increases in electric fuel/other energy related purchases (+\$17 million), purchased gas (+\$17 million), other taxes (+\$9 million), and DD&A (+\$4 million). These were partly offset by lower operating expenses for purchased gas (-\$11 million) and other operations/maintenance (-\$1 million). Income from operations improved to \$241 million from \$235 million. Dominion Energy South Carolina's contribution to overall earnings was flat at \$0.19/share.



CONTRACTED ASSETS: Reported operating earnings rose to \$119 million from \$112 million due to a decrease in operating expenses. Revenue declined to \$282 million from \$301 million while operating expenses fell to \$189 million from \$470 million. The largest decrease in operating expenses came from other operations/maintenance (-\$266 million) followed by purchased gas (-\$11 million), DD&A (-\$6 million), other taxes (-\$1 million) while electric fuel/other energy-related purchases was flat. Income from operations increased to \$93 million from a loss of \$169 million. Contracted assets' contribution to overall earnings rose to \$0.15/share from \$0.13/share.

CORPORATE & OTHER: Produced an operating loss of \$284 million during 3Q21 vs. an operating loss of \$590 million. The improvement came from lower other operations/maintenance expense of \$36 million vs. \$1.19 billion. Operating revenue fell to -\$391 million vs. \$222 million while operating expenses decreased to \$58 million from \$1.23 billion. Corporate & Other's contribution to overall earnings was (\$0.37)/share vs. (\$0.73)/share.

RECENT DEVELOPMENTS

During the 3Q21 earnings call, D's management reaffirmed 2021 operating earnings guidance of \$3.80-\$3.90/share. Additionally, the company stated it's goal of earnings per share growth of 6.5% annually through 2025, driven by its \$32 billion five-year capital growth plan. Over 80% of D's capital investments will be towards reducing carbon emissions.

The Board of Directors recently increased the annual common stock dividend by 6% to \$2.67/share from \$2.52/share.

On 12/31/21 D announced the closing of the sale of Questar Pipeline to Southwest Gas Holdings (SWX-\$). The purchase was worth \$1.975 billion and included the assumption of \$430 million of existing debt.

D filed with the Virginia State Corporation Commission (VSCC) for construction approval of the 2.6 GWs Coastal Virginia Offshore Wind commercial project. The company estimates the project could provide power to 660,000 homes.

Don Raikes retired as president of D's Gas Distribution unit on 1/1/22 and was replaced by P. Rodney Blevins, President of Dominion Energy South Carolina. Mr. Blevins will manage the natural gas utilities in NC, OH, UT, & WV. W. Keller Kissam will replace Mr. Blevins at Dominion Energy South Carolina.

The VSCC approved D's plan to proceed with the 10-year plan allowing for the transformation of the state of Virginia's electric distribution grid. The ruling will allow approximately \$650 million of investments in Phase II of the grid transformation plan in 2022-2023 with the goal of integrating distributed energy resources. These include small-scale solar projects, energy facilities, electric vehicles, smart metering, and intelligent grid devices.



Dominion Energy NC, the NC Utilities Commission (NCCU) public staff, the Carolina Utility Customers Assoc., and an industrial customer filed a comprehensive settlement agreement in D's ongoing regulatory review. The agreement, pending NCCU approval, is effective 11/1/21, allowing Dominion Energy NC's natural gas rates to increase approximately 5% to support investments in natural gas service, customer growth, and new clean energy programs (GreenTherm, Energy Conservation Programs, Hydrogen Blending Pilot).

Dominion Energy Virginia proposed several new solar and energy storage projects in Virginia to the VSCC. The proposal includes 11 utility-scale solar projects, two small-scale distributed solar projects, a combined solar/storage project, and a stand-alone energy storage project. These projects will provide approximately 1,000 MWs of electricity. The proposal also includes power purchase agreements from 32 solar and energy storage projects.

The Nature Conservancy and Dominion Energy Virginia announced a joint effort to develop the Highland Solar project on the former Red Onion surface mine and adjacent properties in the Virginia counties of Wise and Dickenson. Estimates forecast this project could generate approximately 50 MWs of solar energy.

Our Thoughts

D's 3Q21 operating and adjusted earnings results came in about-as-anticipated by Wall Street. When comparing 3Q21 to 3Q20, D reported operating earnings improved to \$1.11/share from \$1.08, and adjusted earnings of \$0.79/share vs. \$0.41/share during 3Q20. The improvement was mainly due to absence of asset impairment and other charges, taken during 3Q20, related to the cancellation of the ACP. When comparing the two quarters, operating earnings improved at two of D's five operating units (Contracted Assets, Corporate & Other), while results were flat at the three remaining units (Dominion Energy Virginia, Gas Distribution, Dominion Energy South Carolina).

Following cancellation of the ACP, which management hoped would grow earnings through natural gas opportunities, D shifted its earning growth strategy towards renewable energy sources and carbon reduction efforts. The failed pipeline caused D to reduce its dividend by 33% in 2020 in-order to keep its current debt ratings with credit ratings agencies. However, the Board of Directors recently raised the annual dividend by 6% with future dividend increases based on forward earnings growth. We continue to rate D a HOLD with the shares trading at 20.6x our 2021 operating earnings estimate of \$3.86/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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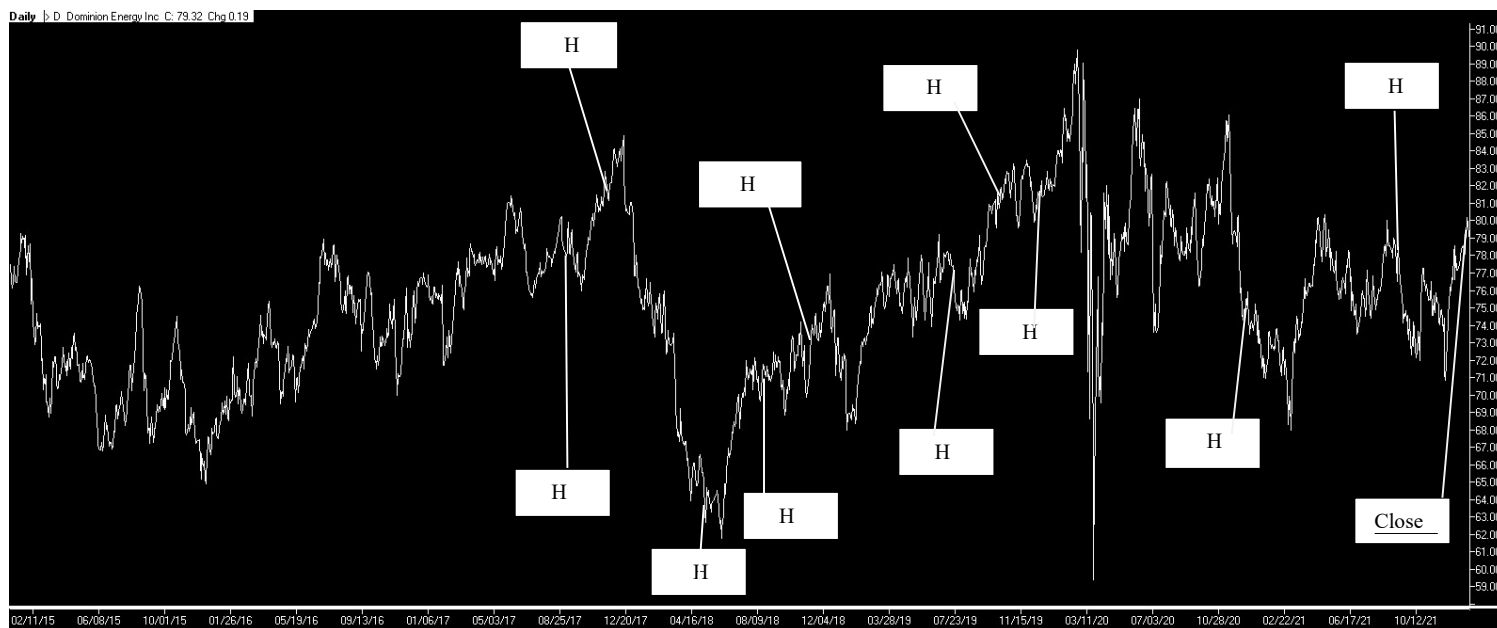
	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21e	2021e
Operating Revenue	\$3,938	\$3,106	\$3,607	\$3,521	\$14,172	\$3,870	\$3,038	\$3,176	\$3,317	\$14,219
Operating Expenses										
Electric fuel/other energy-related purchases	657	507	594	485	2,243	550	487	703	584	2,242
Purchased electric capacity	2	11	23	17	53	11	25	26	16	78
Purchased gas	434	90	37	328	889	484	121	60	121	1,125
Other operations & maintenance	1,659	896	2,128	1,046	5,729	1,082	1,216	702	1,108	4,639
Depreciation, depletion, & amortization	578	578	595	581	2,232	608	604	621	602	2,419
Other taxes	240	220	203	208	871	257	222	223	206	911
Total operating expenses	3,570	2,302	3,580	2,665	12,117	2,992	2,675	2,335	2,647	11,424
Income from operations	368	804	27	856	2,055	878	363	841	670	2,795
Other income	-454	500	281	406	733	367	377	202	219	1,523
Income before interest & income taxes	-86	1,304	308	1,262	2,788	1,245	740	1,043	889	4,318
Interest & related charges	432	398	306	241	1,377	53	518	407	412	1,351
Income before income taxes	-518	906	2	1,021	1,411	1,192	222	636	487	2,967
Income taxes	50	37	110	206	83	212	47	35	52	444
Cont. operating income including non.con. Interests	-468	869	225	-125	-1,878	980	269	601	435	2,523
net income discontinued operations	229	-2,001	19	8	149	28	26	65	68	85
noncontrolling interests	31	37					10	12	14	10
Reported Earnings	(\$270)	(\$1,169)	\$356	\$682	(\$401)	\$1,008	\$285	\$654	\$459	\$2,598
Reported Earnings Per Share	(\$0.34)	(\$1.52)	\$0.41	\$0.82	(\$0.57)	\$1.23	\$0.33	\$0.79	\$0.60	\$3.17
Items excluded from operating earnings (net of taxes)	\$1,058	\$1,799	\$560	(\$10)	\$3,407	\$115	\$343	\$264	\$270	\$758
Operating Net Income	\$788	\$630	\$916	\$7	\$3,006	\$893	\$628	\$918	\$729	\$3,126
Operating Earnings Per Share-Diluted	\$0.92	\$0.73	\$1.08	\$0.81	\$3.54	\$1.09	\$0.76	\$1.11	\$0.90	\$3.86



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Steven Marascia owns shares of Dominion Energy

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