



January 13, 2023

CURRENT PRICE: \$62.92
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 4.2%

EPS Estimates - Non-GAAP

	DEC 21A	DEC 22E
1Q	\$1.09	\$1.18A
2Q	\$0.76	\$0.77A
3Q	\$1.11	\$1.11A
4Q	\$0.90	\$1.02
	\$3.86	\$4.08

Trading Data

52-WEEK PRICE RANGE: \$88.78-\$57.18
SHARES OUTSTANDING: 832.6(M)
MARKET CAP: \$52,387(M)
AVG. DAILY TRADING VOLUME: 5.92(M)
S&P 500: 3,991

Valuation Data

BOOK VALUE: \$32.10
PRICE TO BOOK: 1.96x
DIVIDEND: \$2.67

Dominion Energy (NYSE: D)

Stock Falls On Earnings Growth Concerns

Highlights

- 3Q22 operating earnings flat at \$1.11/share vs. 3Q21
- Management announces review of business strategy
- Shifting towards a greener/renewables business strategy
- Narrowed 2022 operating earnings guidance to \$4.03-\$4.18/share
- 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 3 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.



EQUITY RESEARCH

Recent Earnings

D reported 3Q22 adjusted operating earnings of \$0.91/share vs. \$0.79/share during 3Q21. The improvement resulted as net income rose to \$778 million from \$654 million. The higher results was due to an increase in revenues (\$4.39 billion vs. \$3.18 billion) offsetting rising expenses (\$3.31 vs. \$2.34 billion). Results were also helped by lower interest & related charges (-\$78 million). Adjusted operating earnings during 3Q22 of \$0.91/share reflect non-cash mark-to-market impact of economic hedging activities, unrealized changes in the value of D's nuclear decommissioning trust funds and other adjustments. 3Q22's operating earnings of \$1.11/share was flat when compared to \$1.11/share generated during 3Q21. Three of D's five operating units produced flat earnings results (Dominion Energy Virginia, Gas Distribution, and Contracted Assets), while Dominion Energy South Carolina's was higher, and Corporate/Other's was lower.

SEGMENT RESULTS (3Q22 VS. 3Q21)

DOMINION ENERGY VIRGINIA: Reported operating earnings rose to \$617 million from \$599 million. Revenues increased to \$2.87 billion from \$2.33 billion and offset a rise in operating expenses to \$1.96 billion from \$1.43 billion. Higher operating expenses came from electric fuel/other energy related purchases (+\$365 million), purchased gas (+\$59 million, and DD&A (+\$13 million). These were partly offset by lower other taxes (-\$6 million) and purchased electric capacity (-\$5 million). Income from operations improved to \$908 million from \$897 million and Dominion Energy Virginia's contribution to overall earnings was flat at \$0.74/share.

GAS DISTRIBUTION: Reported operating earnings decreased to \$67 million from \$69 million. Operating revenues increased to \$437 million from \$373 million while operating expenses rose to \$371 million from \$314 million. The rise in operating expenses came from purchased gas (\$30 million), other operations/maintenance (+\$17 million), other taxes (+\$10 million) while DD&A was flat. Gas Distribution's contribution to overall earnings was flat at \$0.08/share.

DOMINION ENERGY SOUTH CAROLINA: Reported operating earnings of \$175 million vs. \$151 million as higher revenues (+\$117 million) outdistanced increased operating expenses (+\$90 million). Additionally, results benefited from lower income taxes (-\$2 million). Higher operating expenses came from electric fuel/other energy-related purchases (+\$43 million), purchased gas (+\$40 million), other taxes (+\$7 million), DD&A (+\$4 million) while being partially offset lower other O&M (-\$8 million), and purchased electric capacity (-\$5 million). Dominion Energy South Carolina's contribution to overall earnings increased to \$0.21/share from \$0.19/share.

CONTRACTED ASSETS: Reported operating earnings increased to \$121 million from \$119 million. This occurred as revenues declined (-\$38 million) as did expenses (\$-27 million). However, this sector's other income improved \$23 million. The decrease in lower expenses came from other O&M (-\$16 million), DD&A (-\$7 million), other taxes (-\$5 million), and electric fuel/energy-related purchases (-\$3 million). These were partly offset by lower purchased gas (\$+4 million). Contracted Assets contribution to overall earnings were flat at \$0.15/share.



CORPORATE & OTHER: Produced an operating loss of \$36 million vs. a loss of \$20 million. This occurred as operating expenses rose to \$401 million from \$58 million while revenues rose to \$149 million vs. (\$391 million). Higher operating expenses came from other O&M (+\$245 million), DD&A (+\$96 million), purchased gas (+\$10 million), and other taxes (+\$2 million). Results were helped by lower interest expense (-\$125 million). Corporate & Other's contribution to overall earnings decreased to (\$0.07)/share from (\$0.05)/share).

RECENT DEVELOPMENTS

Management stated it plans to review its business strategy and potentially make changes to maximize the value of the company and will consider alternatives to its current business mix and capitol allocation.

Steven D. Ridge was promoted to Senior VP and CFO of D. He succeeds James R. Chapman who left to become VP/Treasurer at Exxon Mobil (XOM-\$113.15).

The Bureau of Ocean Energy Management released the publication of its Environmental Impact Statement, on 12/16/22, for D's 2.6 gigawatt wind project being constructed off the coast of Virginia. This report release opens a 60-day public comment period on the offshore project.

Dominion Energy VA, Office of the VA Attorney General, Walmart, Sierra Club, and Appalachian Voices settled the dispute over the petition that went to the VA State Corporation Commission (VASCC) regarding the final order on the offshore wind project.

D filed with the VASCC its third annual clean energy filing for a dozen proposed new solar and energy storage projects for VA customers. These projects are designed to generate approximately 800 MWs of electricity.

The company's largest operational pilot battery energy storage project, in Powhatan County VA, went into operation last July.

D redeemed all outstanding shares of its Series A cumulative perpetual convertible preferred stock on 9/1/22.



Our Thoughts

D reported 3Q22 adjusted operating earnings of \$0.91/share vs. \$0.79/share during 3Q21. 3Q22's operating earnings of \$1.11/share was flat when compared to \$1.11/share generated during 3Q21. Three of D's five operating units produced flat earnings results (Dominion Energy Virginia, Gas Distribution, and Contracted Assets), while Dominion Energy South Carolina's was higher, and Corporate/Other's was lower.

Following D's released its 3Q22 earnings results, its stock fell from \$69.23 to a recent low of \$57.18. In our opinion, the decline was due to management's statements during the 3Q22 conference call that they would re-assess its business strategy and previous forward earnings guidance -which had been a 6.5% annual growth rate.

Prior, to the announcement Wall Street had given D a higher valuation, versus its utility peers, based on the 6.5% expected growth rate. However, given management's business assessment announcement the higher valuation awarded to D vanished as Wall Street sold off the stock, bringing its valuation in line with its peers.

D plans to provide "new" forward guidance during its 4Q earnings call in February 2023 which might result in selling assets to generate future earnings growth and update its dividend policy. Our sense is Wall Street eagerly awaits this 4Q earnings announcement to ascertain what D's new earnings growth strategy will be and if any changes are made to its dividend policy. Potentially, D's stock could be volatile over the short-term based on any new announced strategy. We continue to rate this stock a HOLD until more clarity is provided by management.



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)

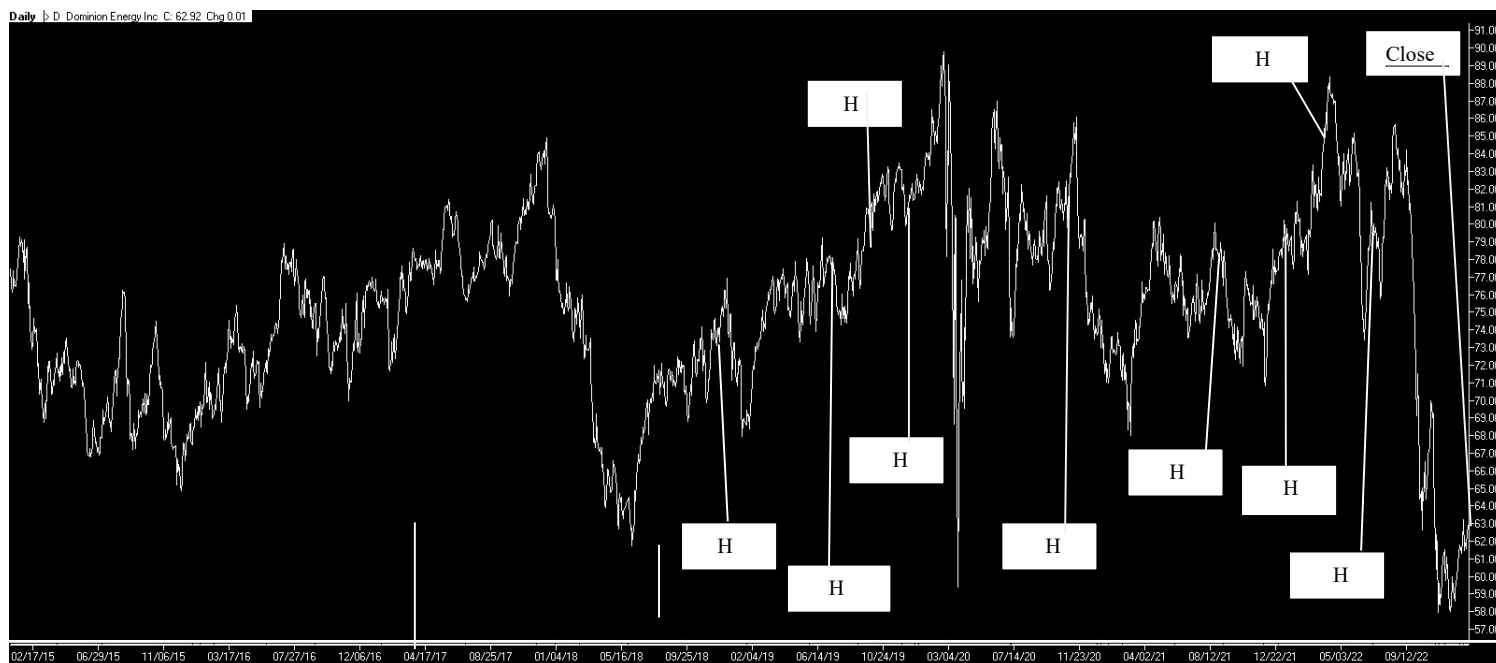
	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22e	2022e
Operating Revenue	\$3,870	\$3,038	\$3,176	\$3,880	\$13,964	\$4,279	\$3,596	\$4,386	\$3,828	\$16,089
Operating Expenses										
Electric fuel/other energy-related purchases	550	487	703	628	2,368	678	730	1,217	653	3,278
Purchased electric capacity	11	25	26	8	70	13	16	16	14	59
Purchased gas	484	121	60	418	1,083	645	202	138	426	1,411
Other operations & maintenance	1,082	1,216	702	1,037	4,037	1,016	2,036	985	1,109	5,146
Depreciation, depletion, & amortization	608	604	621	645	2,478	698	695	727	645	2,765
Other taxes	257	222	223	207	909	253	235	231	217	936
Total operating expenses	2,992	2,675	2,335	2,943	10,945	3,303	3,914	3,314	2,874	13,405
Income from operations	878	363	841	937	3,019	976	-318	1,072	954	2,684
Other income	367	377	202	487	1,433	126	-204	162	267	351
Income before interest & income taxes	1,245	740	1,043	1,424	4,452	1,102	-522	1,234	1,221	3,035
Interest & related charges	53	518	407	376	1,354	174	47	329	388	938
Income before income taxes	1,192	222	636	1,048	3,098	928	-569	905	833	2,097
Income taxes	212	47	35	225	425	236	117	124	174	651
Cont. operating income including non.con. Interests	980	269	601	823	2,673	692	-452	781	659	1,680
net income discontinued operations	28	26	65	522	641	19	1	3	134	157
noncontrolling interests		10	12	4	26				7	7
Reported Earnings	\$1,008	\$285	\$654	\$1,341	\$3,288	\$711	(\$453)	\$778	\$827	\$1,863
Reported Earnings Per Share	\$1.23	\$0.33	\$0.79	\$1.63	\$3.98	\$0.83	(\$0.58)	\$0.91	\$1.02	\$2.18
Items excluded from operating earnings (net of taxes)	\$115	\$343	\$264	\$589	\$97	\$289	\$1,111	\$166	\$22	\$1,588
Operating Net Income	\$893	\$628	\$918	\$752	\$3,191	\$1,000	\$658	\$944	\$849	\$3,451
Operating Earnings Per Share-Diluted	\$1.09	\$0.76	\$1.11	\$0.90	\$3.86	\$1.18	\$0.77	\$1.11	\$1.02	\$4.08



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Steven Marascia certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Steven Marascia owns shares of Dominion Energy

Stock ratings used in this report are defined as follows:

- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (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.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 33%, (2) 67%, (3) 0%

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