

**January 8, 2024**

**CURRENT PRICE:** \$49.01  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 5.5%

### **EPS Estimates - Non-GAAP**

	DEC 22A	DEC 23E
1Q	\$0.81	\$0.61A
2Q	\$0.59	\$0.37A
3Q	\$0.99	\$0.77A
4Q	\$0.79	\$0.35
	<b>\$3.17</b>	<b>\$2.10</b>

### **Trading Data**

52-WEEK PRICE RANGE: **\$63.68-\$39.18**  
 SHARES OUTSTANDING: **836.8(M)**  
 MARKET CAP: **\$41,012(M)**  
 AVG. DAILY TRADING VOLUME: **6.07(M)**  
 S&P 500: **4,764**

### **Valuation Data**

BOOK VALUE: **\$31.42**  
 PRICE TO BOOK: **1.56x**  
 DIVIDEND: **\$2.67**

## **Dominion Energy (NYSE: D)**

*Awaiting Business Strategy Review*

### **Highlights**

- 3Q23 operating earnings of \$0.77/share vs \$0.99/share in 3Q22
- Management hopes to release business strategy review in 1H24
- Cove Point & gas LDCs moved to discontinued operations
- Provided 4Q23 guidance-none for FY24
- 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 3Q23 operating earnings of \$0.77/share vs. \$0.99/share during 3Q22. The decline was mainly due to the absence of discontinued operations, such as Cove Point LNG facility and gas distribution assets, recently sold by D, and whose results were excluded from 3Q23 results. On a quarter-to-quarter comparison, operating revenues declined to \$3.81 billion from \$3.9 billion while operating expenses fell to \$2.78 billion from \$2.97 billion. As a result, operating income increased to \$1.04 billion from \$995 million while net income from continuing operations rose to \$899 million from \$696 million. Following the sale of the Cove Point LNG facility and gas distribution assets, D's remaining renewable gas business is now contained in the Contracted Energy unit.

Adjusted operating earnings decreased to \$0.17/share from \$0.91/share. The difference in operating earnings vs. adjusted operating earnings came from a net gain on the sale of discontinued operations such as the remaining non-controlling interest in the Cove Point LNG facility and gas distribution assets, deferred taxes connected to the gas asset sales, gains/losses on the nuclear decommissioning trust funds, mark-to-market impact of economic hedging activities, and other adjustments.

### SEGMENT RESULTS (3Q23 vs. 3Q22):

**DOMINION ENERGY VIRGINIA:** Both reported and operating earnings decreased to \$532 million from \$618 million. Revenues fell to \$2.65 billion from \$2.87 billion while operating expenses declined to \$1.75 billion from \$1.96 billion. Lower operating expenses came from decreases in electric fuel & other energy-related purchases (-\$245 million), other operations/maintenance (-\$26 million), and other taxes (-\$8 million). These were partly offset by increases in DD&A (+\$71 million) and purchased electricity (+\$4 million). The decrease in revenues and higher operating expenses caused operating income to fall to \$894 million from \$910 million and Dominion Energy Virginia's contribution to overall earnings declined to \$0.64/share from \$0.74/share.

**DOMINION ENERGY SOUTH CAROLINA:** Reported and operating earnings fell to \$143 million from \$175 million. Operating revenues improved to \$945 million from \$917 million but was not enough to offset higher operating expenses of \$700 million compared to \$649 million. Higher operating expenses came from electric fuel & other energy-related expenses (+\$77 million), other operations/maintenance (+\$23 million), and DD&A (+\$9 million). These were partly offset by lower purchased gas expense (-\$45 million) and other taxes (-\$3 million). Profitability was also affected by higher interest expense which rose \$6 million. These factors decreased operating income, \$245 million vs. \$268 million, and Dominion Energy SC's contribution to overall earnings fell to \$0.17/share from \$0.21/share.



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**CONTRACTED ENERGY:** Reported and operating earnings declined to \$54 million from \$65 million as revenues decreased (\$232 million vs. \$245 million), expenses rose (\$167 million vs. \$165 million), and interest expense increased (+\$10 million) during 3Q23. Higher expenses came from other operations/maintenance (+\$7 million), other taxes (\$4 million), and were partly offset by lower DD&A (-\$9 million). Operating income fell to \$65 million from \$80 million and Contracted Energy's contribution to overall earnings was \$0.06/share vs. \$0.08/share. Following the sale of gas assets, D's remaining renewable gas business is now contained in the Contracted Energy unit.

**CORPORATE & OTHER:** Reported earnings decreased to -\$566 million from -\$80 million. Revenues rose to \$222 million from \$144 million as expenses fell to \$391 million from \$407 million. The decrease in expenses came from lower DD&A (-\$38 million) and other taxes (-\$2 million). These were partly offset by higher other operations/maintenance (+\$30 million). The biggest impact on this unit's profitability was a \$554 million loss from discontinued operations and was tempered by lower interest and related charges (-\$89 million vs. -\$234 million). Income from operations improved to -\$169 million from -\$263 million and Corporate & Other's contribution to overall earnings was (\$0.62)/share vs. (\$0.11/share).

## 3Q23 EARNINGS CONFERENCE CALL NOTES:

Management discussed a variety of topics, including its legislative efforts (which they were pleased with), as well as the top-to-bottom review of its business strategy which has taken center stage for Wall Street investors concerned about D's balance sheet, earnings growth, and dividend levels.

D plans to unveil its business strategy review sometime during 1H24 after an equity/investment partner has been found on for its Virginia offshore wind project. Management noted the recent sale of the Cove Point facility and its natural gas LDC assets, for approximately \$9 billion will go to reduce company debt with an anticipated \$500 million reduction in annual interest expense.

Management's goal is to grow earnings, with low to no dividend growth, which could lower its dividend payout ratio towards its industry peers. Potentially, this would improve the balance sheet. D said it was committed to the current dividend level of \$2.67/share.

The Board of Directors recently modified CEO Bob Blue's compensation structure for 2023 with 100% of his long-term incentive structure being performance based with 70% calculated on three-year relative total shareholder return with a 65 percentile relative performance needed to achieve 100%.

Regarding the Virginia offshore wind project, D stated it is now fully regulated, meeting construction timelines, and on budget (~\$9.8 billion). D is seeking an equity partner for this project claiming they are currently in negotiations with an interested party. Further, management stated the business review strategy process would be completed once a partner is found for the offshore wind project.





Given the recent sale of assets, management provided 4Q23 operating earnings guidance of \$0.35/share, and noted earnings through 3Q23 were adjusted to \$1.75/share. 2024 will be a transitional year for the company with expectations of 2025 being a “normal year” – however, no guidance was given for 2024 or 2025. Management expects to offer clarity regarding 2024 and 2025 once they complete their business strategy review.

## **Our Thoughts**

D may soon be transitioning to a new operating model over the short term based upon the findings of its business strategy review. What it is transitioning to remains a mystery to Wall Street. During the past two decades, Wall Street investors believed the company’s earnings growth story predicated on various strategies, ranging from non-regulated business ventures to the cancelled Atlantic Coast Pipeline Project. However, Wall Street now questions the company’s ability to grow earnings, reflected in the descent of D’s stock, since mid-2022, when it hit a yearly high of approximately \$88/share. In our opinion, the situation at D is still unsettled and investors should wait to see what the business strategy review produces if unveiled during 1H24. When these findings are released, management will need to address strengthening its balance sheet, future earnings growth, and dividend levels. We believe the answers provided will dictate the future movement of D’s stock price. We continue to rate this stock a HOLD awaiting the results of its strategic business review.



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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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Dominion Resources  
(in millions, except per share data)

	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23e	FY23e
Operating Revenue	\$4,279	\$3,596	\$4,386	\$4,913	\$17,174	\$5,212	\$3,794	\$3,810	\$5,129	\$17,945
Operating Expenses										
Electric fuel/other energy-related purchases	678	730	1,217	1,086	3,711	1,022	939	1,049	1,283	4,293
Purchased electric capacity	13	16	16	14	59	8	15	19	16	58
Purchased gas	645	202	138	597	1,582	764	227	40	686	1,717
Other operations & maintenance	1,016	2,036	985	2,436	6,473	1,018	963	842	1,278	4,101
Depreciation, depletion, & amortization	698	695	727	710	2,830	720	706	663	726	2,815
Other taxes	253	235	231	204	923	275	222	162	237	896
Total operating expenses	3,303	3,914	3,314	5,047	15,578	3,807	3,072	2,775	4,226	13,880
Income from operations	976	-318	1,072	-134	1,596	1,445	722	1,035	903	4,105
Other income	126	-204	162	339	423	364	415	56	323	1,158
Income before interest & income taxes	1,102	-522	1,234	205	2,019	1,809	1,137	1,091	1,226	5,263
Interest & related charges	174	47	329	416	966	586	430	192	423	1,631
Income before income taxes	928	-569	905	-211	1,053	1,223	707	899	803	3,632
Income taxes	236	117	124	175	68	221	121	182	154	678
Cont. operating income including non.con. Interests	692	-452	781	-36	985	1,002	586	717	649	2,954
net income discontinued operations	19	1	3	-6	9	-5	13	-554		-546
noncontrolling interests										
Reported Earnings	\$711	(\$453)	\$778	(\$42)	\$994	\$997	\$599	\$163	\$649	\$2,408
Reported Earnings Per Share	\$0.84	(\$0.58)	\$0.91	(\$0.07)	\$1.09	\$1.17	\$0.69	\$0.17	\$0.78	\$2.81
Items excluded from operating earnings (net of taxes)	(\$20)	\$964	\$69	\$717	\$1,730	(\$464)	(\$271)	\$504	(\$356)	\$561
Operating Net Income	\$691	\$511	\$847	\$675	\$2,724	\$533	\$328	\$667	\$203	\$2,429
Operating Earnings Per Share-Diluted	\$0.81	\$0.59	\$0.99	\$0.79	\$3.17	\$0.61	\$0.37	\$0.77	\$0.35	\$2.10

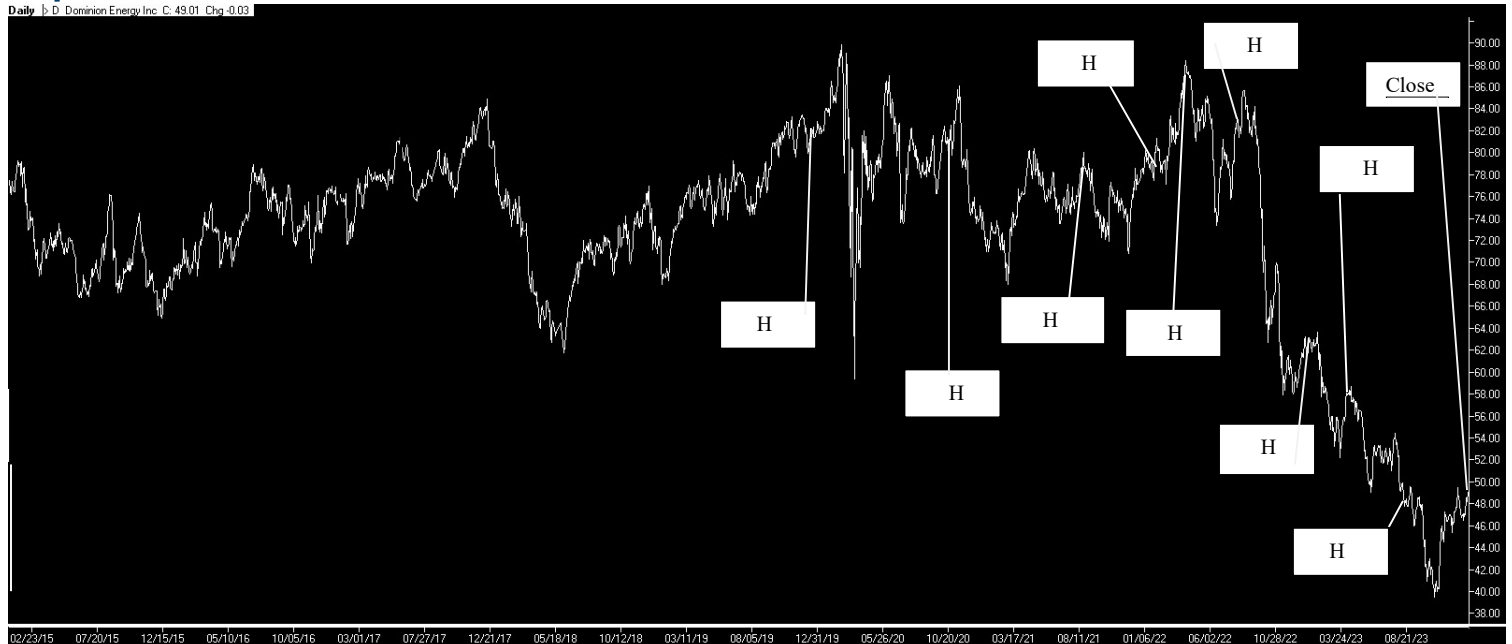


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## Important Disclosures

Daily | D | Dominion Energy Inc. | 49.01 | Chg. -0.03



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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