

**April 10, 2023**

**CURRENT PRICE:** \$57.96  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 4.6%

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

	DEC 22A	DEC 23E
1Q	\$1.18	\$0.99
2Q	\$0.77	\$0.75
3Q	\$1.11	\$1.06
4Q	\$1.06	\$1.03
	<b>\$4.11</b>	<b>\$3.83</b>

### **Trading Data**

52-WEEK PRICE RANGE: **\$88.78-\$52.03**  
 SHARES OUTSTANDING: **834.1(M)**  
 MARKET CAP: **\$48,353(M)**  
 AVG. DAILY TRADING VOLUME: **4.71(M)**  
 S&P 500: **4,109**

### **Valuation Data**

BOOK VALUE: **\$31.25**  
 PRICE TO BOOK: **1.86x**  
 DIVIDEND: **\$2.67**

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

*Management Reviewing Business Strategy*

### **Highlights**

- 4Q22 operating earnings of \$1.06/share vs \$0.90/share in 4Q21
- Management reviewing ongoing business strategy
- \$1.5 billion charge related to solar tax credits
- Provided 1Q23 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 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.*



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## Recent Earnings

D reported 4Q22 operating earnings of \$1.06/share vs. \$0.90/share during 4Q21. The improved results were due to normal weather in D's service territories, regulated growth, absence of the Millstone Plant planned outage, the lack of 2021's covid deferred O&M, and tax timing. On a quarter-to-quarter basis, operating revenues rose to \$4.9 billion from \$3.9 billion and operating expenses increased to \$5.1 billion from \$2.9 billion. Operating results improved in the Gas Distribution, Contracted Assets, and Corporate/Other units, declined in the Dominion Energy VA unit, and was flat in the Dominion Energy SC unit. During 4Q22, D took a \$1.5 non-cash charge for tax credits related to its investment in unregulated solar units. 4Q22 adjusted operating earnings decreased to (\$0.07)/share vs \$1.63/share during 4Q21. FY22 operating earnings rose to \$4.11/share from \$3.86/share during FY21 while adjusted operating earnings decreased to \$1.09/share from \$3.98/share. When comparing FY22 to FY21, revenues rose to \$17.2 billion from \$14.0 billion while expenses rose to \$15.6 billion from \$11.0 billion.

### SEGMENT RESULTS (4Q22 VS. 4Q21):

**DOMINION ENERGY VIRGINIA:** Reported & operating earnings decreased to \$433 million from \$455 million. Revenues rose to \$2.45 billion from \$1.94 billion while operating expenses increased to \$1.79 billion from \$1.28 billion. The rise in operating expenses came from higher electric fuel/other energy-related purchases (+\$418 million), DD&A (+\$57 million), other operations/maintenance (+\$40 million), and other taxes (+\$1 million). These were partly offset by lower purchased electric capacity (-\$3 million). Income from operations decreased to \$651 million from \$656 million and Dominion Energy VA's contribution to overall earnings fell to \$0.52/share from \$0.56/share.

**GAS DISTRIBUTION:** Reported & operating earnings rose to \$211 million from \$188 million as higher revenues (+\$240 million) outdistanced an increase in operating expenses (+\$193 million). The rise in operating expenses resulted from purchased gas (+\$194 million), DD&A (+\$4 million) and other taxes (+\$1 million). These increases were partly offset by lower other operations/maintenance (-\$6 million). Income from operations rose to \$263 million from \$216 million and Gas Distribution's contribution to overall earnings improved to \$0.25/share vs. \$0.23/share.

**DOMINION ENERGY SOUTH CAROLINA:** Reported & operating earnings declined to \$97 million from \$100. Revenues increased \$59 million and operating expenses rose \$47 million. Higher operating expenses came from electric fuel/other energy-related purchases (+\$36 million), DD&A (+\$6 million), purchased gas (+\$4 million), other taxes (+\$2 million), and purchased electric capacity (+\$1 million). These were partly offset by a decrease in other operations/maintenance (-\$2 million). Income from operations improved to \$181 million from \$169 million and Dominion Energy SC's contribution to overall earnings was flat at \$0.12/share.

**CONTRACTED ASSETS:** Reported & operating earnings rose to \$93 million from \$58 million. Revenues increased \$48 million while operating expenses decreased \$50 million. Lower expenses came from other operations/maintenance (-\$37 million), higher purchased gas (-\$8 million), other taxes (-\$5 million), and DD&A (-\$1 million). These were partly offset by higher electric fuel/other energy-related purchases (+\$3 million). Income



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from operations improved to \$85 million from \$27 million and Contracted Assets contribution to overall earnings rose to \$0.11/share from \$0.07/share.

Corporate & Other: Reported earnings decreased to -\$876 million from \$543 million mainly due to charges taken for the impairment of assets and losses related to asset sales. Revenues increased to \$205 million and operating expenses rose to \$1.87 billion from \$486 billion due mainly to impairment charges (\$1.77 billion). Income from operations declined to -\$1.31 billion from -\$131 million and Corporate/Other's contribution to overall earnings, factoring out the impairment charge, rose to \$0.06/share vs. (\$0.08)/share.

## 4Q22 EARNINGS CONFERENCE CALL:

Management briefly discussed 4Q22's earnings results and the review of its ongoing business plans. The review will focus on D's continuation as a state-regulated utility, progressing towards decarbonization, maintaining its current debt rating/dividend, and enhancing shareholder value.

D believes it needs to strengthen its "credit metric performance" and use its capital sources to fund growth programs. Management wants to maintain high BBB range credit ratings for parent company debt and single-A range ratings for the regulated operating companies. Potentially, assets may be sold to attain this goal. D wants to finish its business review by mid-year and relay findings to investors soon thereafter.

Higher interest rates have negatively impacted D since 20% of its \$8 billion in debt is floating rate. Thus, the company's interest expense has risen approximately 400 basis points since 1Q22 due to the rising interest rate environment.

Regarding the dividend, D expects to pay the same amount of annual dividend in 2023 as was paid in 2022 (\$2.67/share). However, due to its business model review, the company gave no indication of dividend levels after 2023. The goal is to maintain a 65% dividend payout ratio. Further, since management is reviewing its overall business plan, they provided 1Q23 operating earnings guidance of \$0.97-\$1.12/share but gave none for FY23.

There is legislation pending in the Virginia General Assembly that could revise D's regulatory model and, with commission approval, allow a passive equity partner for the offshore wind project. Management said it is working with state legislators regarding the legislation and said it is too early to predict an outcome.

Data centers account for approximately 20% of D's electric sales in the state of VA. Overall, management expects 1%-1.5% growth of electric sales in 2023 from its service territories.

In the gas distribution business, the Public Service Commission of Utah approved a \$48 million general rate increase and an allowed ROE of 9.6%. Additionally, approval was given to the continuation of the infrastructure replacement tracker programs and costs related to the gas storage project in Utah, known as MAGNA LNG.



## Our Thoughts

While 4Q22 earnings came in as expected, the larger issue is what D does after reviewing its current business model. Management wants to maintain its high BBB range credit ratings for parent company debt and single-A range ratings for the regulated operating companies. Potentially, assets may be sold to accomplish this feat. In our opinion, we believe there are three potential outcomes to D's business model review: 1) sell certain assets or create joint venture ownership stakes in existing projects (offshore windfarm?) to maintain current credit ratings and dividend level, 2) no asset sales occur, thus maintaining status quo and potentially threatening current credit ratings/existing dividend, 3) merge/consolidate with another industry player.

Per management's 4Q22 earnings call discussion, we do not expect a decision on potential asset sales until this summer. Prior to this time, D's shares could see increased share volatility based on company announcements and Wall Street's speculation on what management decides this summer. We continue to rate D a HOLD awaiting clarity on D's adjustments to its business model.



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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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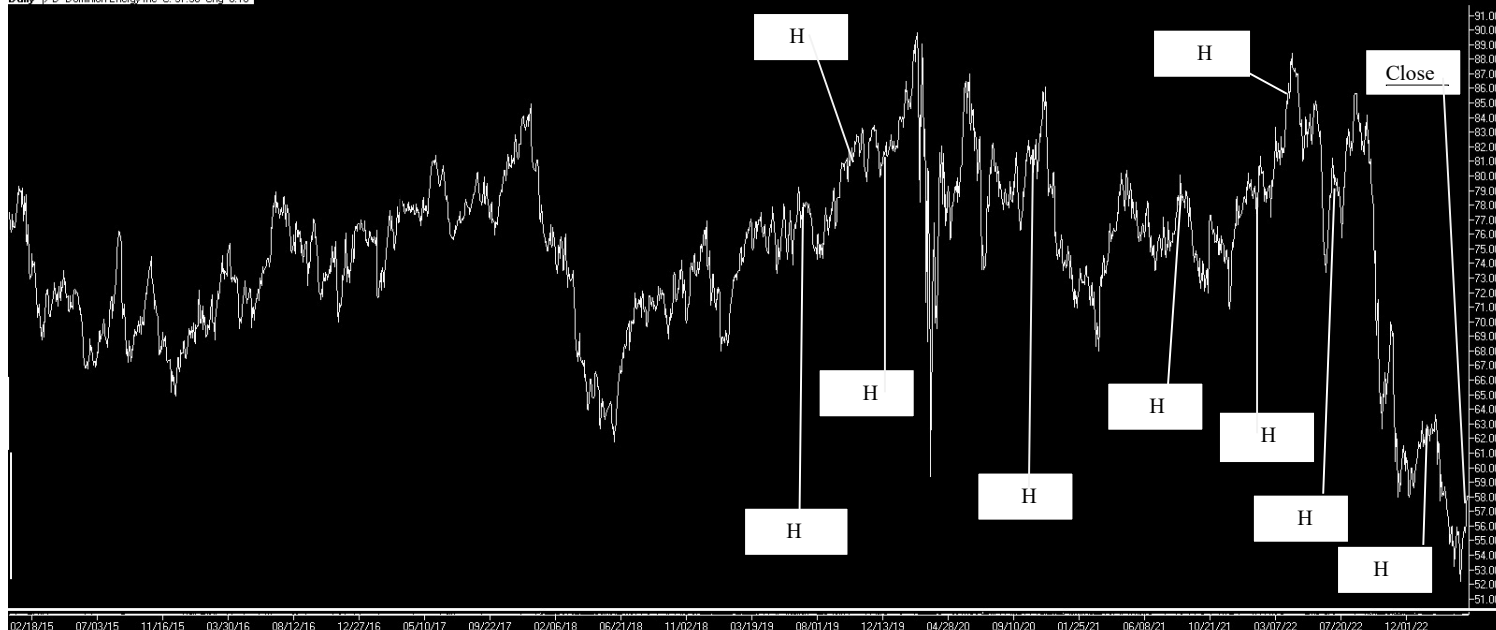
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Dominion Resources  
(in millions, except per share data)

	1Q22	2Q22	3Q22	4Q22	2022	1Q23e	2Q23e	3Q23e	4Q23e	FY23e
Operating Revenue	\$4,279	\$3,596	\$4,386	\$4,913	\$17,174	\$4,314	\$3,645	\$4,522	\$5,287	\$17,768
Operating Expenses										
Electric fuel/other energy-related purchases	678	730	1,217	1,086	3,711	691	742	1,221	1,097	3,751
Purchased electric capacity	13	16	16	14	59	14	15	13	16	58
Purchased gas	645	202	138	597	1,582	667	223	194	607	1,705
Other operations & maintenance	1,016	2,036	985	2,436	6,473	1,029	1,987	1,012	1,708	5,736
Depreciation, depletion, & amortization	698	695	727	710	2,830	706	728	737	726	2,897
Other taxes	253	235	231	204	923	221	246	241	237	945
Total operating expenses	3,303	3,914	3,314	5,047	15,578	3,328	2,961	3,418	4,391	14,098
Income from operations	976	-318	1,072	-134	1,596	986	684	1,104	896	3,670
Other income	126	-204	162	339	423	108	129	227	348	812
Income before interest & income taxes	1,102	-522	1,234	205	2,019	1,094	813	1,331	1,244	4,482
Interest & related charges	174	47	329	416	966	280	305	373	392	1,350
Income before income taxes	928	-569	905	-211	1,053	814	434	956	852	3,056
Income taxes	236	117	124	175	68	162	86	211	170	629
Cont. operating income including non.con. Interests	692	-452	781	-36	985	652	348	745	682	2,427
net income discontinued operations	19	1	3	-6	9					
noncontrolling interests										
Reported Earnings	\$711	(\$453)	\$778	(\$42)	\$994	\$652	\$348	\$745	\$682	\$2,427
Reported Earnings Per Share	\$0.83	(\$0.58)	\$0.91	(\$0.07)	\$1.09	\$0.78	\$0.42	\$0.89	\$0.82	\$2.91
Items excluded from operating earnings (net of taxes)	\$289	\$1,111	\$166	\$945	\$2,511	\$175	\$278	\$139	\$177	\$769
Operating Net Income	\$1,000	\$658	\$944	\$903	\$3,505	\$827	\$626	\$884	\$859	\$3,196
Operating Earnings Per Share-Diluted	\$1.18	\$0.77	\$1.11	\$1.06	\$4.11	\$0.99	\$0.75	\$1.06	\$1.03	\$3.83

## Important Disclosures

Daily | D | Dominion Energy Inc. | 57.96 | Chg. 0.10



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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