



April 3, 2024

CURRENT PRICE: \$48.63
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 5.5%

EPS Estimates - Non-GAAP

	DEC 23A	DEC 24E
1Q	\$0.61	\$0.49
2Q	\$0.37	\$0.50
3Q	\$0.77	\$0.83
4Q	\$0.29	\$0.80
	\$1.99	\$2.62

Trading Data

52-WEEK PRICE RANGE: \$58.69-\$39.18
SHARES OUTSTANDING: 837.3(M)
MARKET CAP: \$40,719(M)
AVG. DAILY TRADING VOLUME: 5.7(M)
S&P 500: 5,212

Valuation Data

BOOK VALUE: \$30.58
PRICE TO BOOK: 1.59x
DIVIDEND: \$2.67

Dominion Energy (NYSE: D)

Unveiled New Operating Strategy

Highlights

- 4Q23 operating earnings of \$0.29/share vs \$0.76/share in 4Q22
- Management unveils results of business strategy review
- Maintaining current dividend of \$2.67/share
- Provided FY24 operating earnings guidance of \$2.62-\$2.87/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 4 years, D purchased the SC gas utility, SCANA. On a combined basis, D has natural gas utility customers in OH, SC, UT, VA, WV, & WY, 7 million total energy/energy related customers in 15 states. Also, D owns 10,600 miles of electric transmission lines and 29.5 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 4Q23 operating earnings of \$0.29/share vs. \$0.76/share during 4Q22. The decline was due to a loss of \$71 million from discontinued operations during 4Q23 compared to a \$122 million gain from discontinued operations during 4Q22. Earnings were also affected by warmer-than-normal weather and outages at the Millstone Power plant. When comparing the two quarters, operating income rose to \$712 million from \$253 million as a decrease of \$732 million in operating expenses more than offset a \$283 million decline in revenues. 4Q23's adjusted operating earnings fell to \$0.30/share from \$0.39/share during 4Q22. Results were impacted by a \$0.09/share loss from discontinued operations during 4Q23 vs. a \$0.15/share gain from discontinued operations during 4Q22. FY23's operating earnings decreased to \$1.99/share from \$3.06/share during FY22 and adjusted operating earnings rose to \$2.29/share from \$1.49/share. Management provided operating earnings guidance of \$2.62-\$2.85/share for 2024 & \$3.25-\$3.54/share in 2025.

SEGMENT RESULTS (4Q23 vs. 4Q22):

Dominion Energy Virginia: Reported and operating earnings declined to \$369 million from \$395 million. Revenues fell to \$2.29 billion from \$2.44 billion and operating expenses decreased to \$1.65 billion from \$1.79 billion. The decline in expenses came from electric fuel/other energy-related purchases (-\$206 million) and other operations/maintenance (-\$29 million). These were partly offset by increases in D&A (+\$75 million), other taxes (+\$10 million), and purchased electric capacity (+\$8 million). These factors caused operating income to drop to \$643 million from \$651 million and Dominion Energy Virginia's contribution to overall earnings fell to \$0.44/share from \$0.47/share.

DOMINION ENERGY SOUTH CAROLINA: Reported and operating earnings fell to \$75 million from \$97 million. Operating revenues improved to \$812 million from \$799 million and operating expenses rose to \$657 million from \$618 million. Higher operating expenses came from electric fuel/other energy-related purchases (+\$51 million), other taxes (+\$11 million), and D&A (+\$6 million). These were countered by lower purchased gas (-\$21 million), other operations/maintenance (+\$7 million), and purchased electric capacity (-\$1 million). The rise in expenses and decrease in revenues caused operating income to fall to \$155 million from \$181 million and Dominion Energy SC's contribution to overall earnings decreased to \$0.09/share from \$0.12/share.

CONTRACTED ENERGY: Reported and operating earnings decreased to -\$19 million from \$82 million. Revenues fell to \$177 million from \$245 million and operating expenses rose to \$226 million from \$160 million. The increase in operating expenses came from other operations/maintenance (+\$77 million) and other taxes (+\$1 million). The increases were partly offset by D&A (-\$6 million) and electric fuel/other energy-related purchases (+-\$6 million). These factors caused operating income to decline to \$19 million from \$82 million and Contracted Energy's contribution to overall earnings was (\$0.02)/share vs. \$0.10/share.



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CORPORATE & OTHER: Reported earnings improved to -\$152 million from -\$230 million. When comparing 4Q23 to 4Q22, revenues decreased to \$504 million from \$543 million and operating expenses fell to \$541 million from \$1.21 billion. The decrease in expenses came from other operations/maintenance (-\$656 million), purchased electric capacity (-\$9 million), purchase gas (-\$1 million), and D&A (-\$1 million). Other taxes increased by \$1 million. The large improvement in operations/maintenance was due to the absence of asset impairment charges, other benefits charges, and losses on asset sales taken during 4Q22. Income from continuing operations improved to -\$37 million from -\$664 million and Corporate & Others contribution to overall reported earnings was (\$0.21)/share vs. (\$0.30)/share.

MANAGEMENT UNVEILS RESULTS OF BUSINESS STRATEGY REVIEW:

For the past year D's management said it would release results of its strategic business review which started in 2023. On 3/1/24 the company announced the results of this business strategy review outlining its new operating philosophy and plan for potential earnings growth in the future. Below are some of the salient points made during the presentation.

- 90% of revenues will be from state regulated utility operations
- 90% of the Contracted Energy unit's earnings in 2025 are either under long-term contracts or hedged
- Anticipates normalized O&M expenses to be flat in 2024 (\$2.4 billion) & trend slightly lower in 2025 (\$2.3 billion)
- Cap-ex spending of \$43.2 billion through 2029
- Management provided operating earnings guidance of \$2.62-\$2.85/share for 2024 & \$3.25-\$3.54/share in 2025.
- Guidance of 5-7% annual operating earnings growth going forward off of mid-point FY25 EPS guidance
- The company is lowering debt at the parent level by ~\$21 billion, lowering parent level debt from 41% to 27%, & will allow D to maintain current debt ratings, of mid-BBB to single A, from the credit ratings agencies.
- Annual dividend will be maintained at current level of \$2.67/share
- While management said earnings could grow 5%-7% per year, D recognizes the dividend payout ratio is high – currently at a 94% payout level
- The annual dividend won't be raised until D's dividend payout ratio drops to about 60%-65%.
- During the 4Q23 earnings call on 2/22/24, D announced the sale of a 50% non-controlling equity interest in the Coastal Va. Offshore Wind Commercial project to Stonepeak for approximately \$3.0 billion. D plans to use proceeds to pay down debt.

To view D's complete 3/1/24 presentation go to the company's investor relations website: <https://investors.dominionenergy.com/events-and-presentations/default.aspx>



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Our Thoughts

In our opinion, after losing Wall Street's confidence, during the past two years, D will now be a "show me" stock needing to prove to investors that earnings can grow based on management's new operating strategy. The new business strategy plan, unveiled on 3/1/24, caused a collective yawn from Wall Street investors. This plan, while addressing some credit rating issues, and the ongoing dividend, caused investors to wait to see whether D can grow annual operating earnings by 5%-7% under its new strategy. Management said 2024 will be a "transitional year" and 2025 will be a "foundational year" and provided operating earnings guidance of \$2.62-\$2.85/share for 2024 & \$3.25-\$3.54/share in 2025.

Given management's statements about the current dividend payout ratio being too high, and based on the projected annual 5%-7% earnings growth rate, it is likely D won't raise its dividend for 5-6 years. Thus, Wall Street could trade this 5.5% yielding stock, like a 5.5% fixed rate bond, meaning the direction of D's share price movement could be driven by the future movement of interest rates. This may equate to D's share price increasing if interest rates move lower, or falling if interest rates rise in the future. We continue to rate D a HOLD.

Risks

There is no guarantee D will improve earnings/cash flow. The new business strategy, and shifting its business strategy towards "green" generation, may not grow future earnings as outlined by management, and could be looked upon unfavorably by Wall Street. This could result in heavy selling of D's stock. Declining US electric sales volumes may hurt the company's revenues and profits. Rising interest rates, debt service issues, 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.

Steven F. Marascia
Director of Research
Capitol Securities Management
804-612-9715



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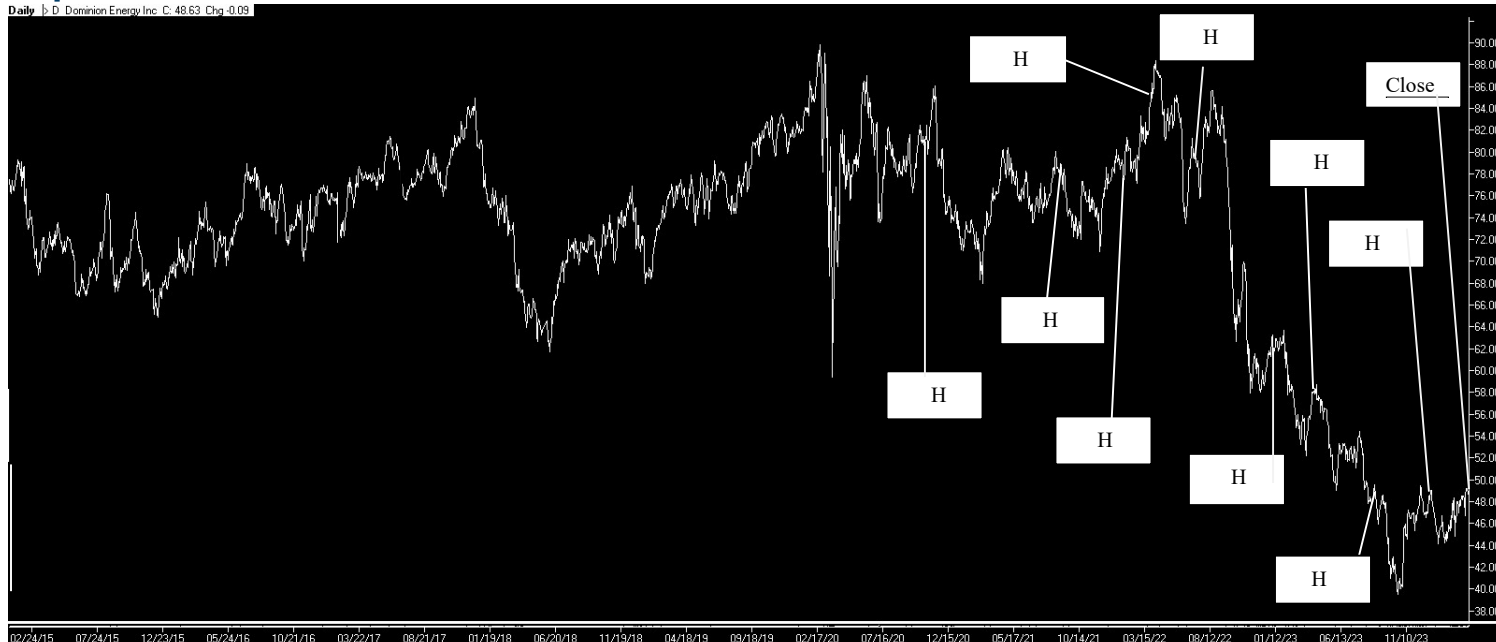
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Dominion Resources
(in millions, except per share data)

	1Q23	2Q23	3Q23	4Q23	FY23	1Q24e	2Q24e	3Q24e	4Q24e	FY24e
Operating Revenue	\$5,212	\$3,794	\$3,810	\$3,534	\$14,393	\$4,316	\$3,773	\$3,976	3,843	\$15,908
Operating Expenses										
Electric fuel/other energy-related purchases	1,022	939	1,049	925	3,395	984	886	983	826	3,679
Purchased electric capacity	8	15	19	12	55	11	17	22	9	59
Purchased gas	764	227	40	73	285	76	221	88	65	450
Other operations & maintenance	1,018	963	842	961	3,440	942	856	854	789	3,441
Depreciation, depletion, & amortization	720	706	663	684	2,580	689	714	692	684	2,779
Other taxes	275	222	162	167	684	215	223	194	154	786
Total operating expenses	3,807	3,072	2,775	2,882	10,979	2,917	\$2,917	2,773	2,527	11,134
Income from operations	1,445	722	1,035	712	3,414	1,199	856	1,143	1,316	4,514
Other income	364	415	56	346	992	127	298	325	307	1,057
Income before interest & income taxes	1,809	1,137	1,091	1,058	4,406	1,326	1,154	1,468	1,623	5,571
Interest & related charges	586	430	192	608	1,674	608	563	512	559	2,242
Income before income taxes	1,223	707	899	450	2,732	718	591	956	1,064	3,329
Income taxes	221	121	182	106	575	144	118	191	212	665
Cont. operating income including non.con. Interests	1,002	586	717	344	2,157	574	473	765	852	2,664
net income discontinued operations	-5	13	-554	-71	-163					
noncontrolling interests										
Reported Earnings	\$997	\$599	\$163	\$273	\$1,994	\$574	\$473	\$765	\$852	\$2,664
Reported Earnings Per Share	\$1.17	\$0.69	\$0.17	\$0.30	\$2.29	\$0.69	\$0.57	\$0.91	\$1.02	\$3.19
Items excluded from operating earnings (net of taxes)	(\$464)	(\$271)	\$504	(\$6)	(\$251)	(\$164)	(\$51)	(\$74)	(\$183)	(\$472)
Operating Net Income	\$533	\$328	\$667	\$267	\$1,743	\$410	\$422	\$691	\$669	\$2,192
Operating Earnings Per Share-Diluted	\$0.61	\$0.37	\$0.77	\$0.29	\$1.99	\$0.49	\$0.50	\$0.83	\$0.80	\$2.62

Important Disclosures

Daily | D | Dominion Energy Inc. C: 48.63 Chg: 0.09



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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