

Dominion Energy, Inc. (D)

\$83.22 (As of 03/10/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: C

Summary

Dominion Energy continues to benefit from strong contribution from its business units. The company is gaining from organic growth projects and acquisition synergies. The company's long-term capital spending plan of \$26B for expansion of electric transmission and distribution, addition of renewable assets, natural gas facilities and midstream assets is a major positive. Shares of the company have outperformed its industry in the past six months. However, the company's future earnings may be largely affected by share dilution. Further, ongoing delay and rising cost of the Atlantic Coast Pipeline project may impact the company's profitability. Dominion is also exposed to the risk associated with the operation of nuclear facilities.

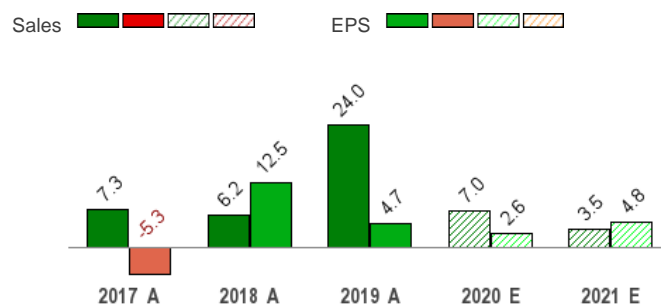
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$90.89 - \$72.61
20 Day Average Volume (sh)	4,132,835
Market Cap	\$69.7 B
YTD Price Change	0.5%
Beta	0.34
Dividend / Div Yld	\$3.76 / 4.5%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 37% (94 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	-8.2%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/01/2020
Earnings ESP	0.0%
P/E TTM	19.7
P/E F1	19.1
PEG F1	3.9
P/S TTM	4.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					18,356 E
2020	4,623 E	4,153 E	4,384 E	4,239 E	17,728 E
2019	3,858 A	3,970 A	4,269 A	4,475 A	16,572 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.56 E
2020	\$1.11 E	\$0.98 E	\$1.26 E	\$0.94 E	\$4.35 E
2019	\$1.10 A	\$0.77 A	\$1.18 A	\$1.18 A	\$4.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/10/2020. The reports text is as of 03/11/2020.

Overview

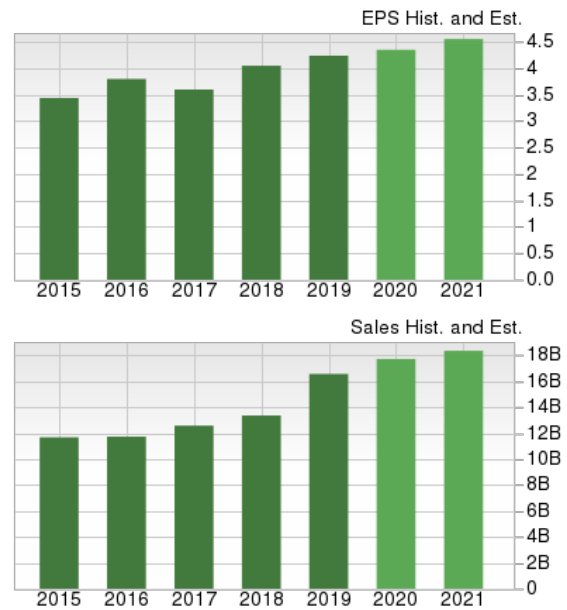
Richmond, VA-based Dominion Energy Inc. (earlier known as Dominion Resources Inc.) was founded in 1909. The company together with its subsidiaries produces and transports energy in the United States. It is a major energy company engaged in regulated and non-regulated electricity distribution, generation and transmission businesses. In addition, it sells electricity at wholesale prices to rural electric cooperatives, municipalities and through wholesale electricity markets.

Dominion has a portfolio of nearly 27,100 MW of generating capacity, 14,800 miles of natural gas transmission, gathering, storage and distribution pipeline, as well as 6,600 miles of electric transmission and distribution lines. The company operates the nation's largest underground natural gas storage systems, with an approximate capacity of 1 trillion cubic feet (Tcf). It serves nearly 7.5 million electric or natural gas customers across 18 states.

Dominion Energy started to report under five new operating segments from Dec 1, 2019. The new segments are **Dominion Energy Virginia** - the vertically integrated electric utility in Virginia and North Carolina; **Contracted Generation**, which includes Millstone Power Station and more than 50 long-term contracted solar facilities; **Gas Transmission & Storage**, consisting of 14,800 miles of natural gas transmission, gathering and storage pipelines, gas storage operations and the Cove Point LNG facility; **Gas Distribution**, which has four gas local distribution companies in Idaho, North Carolina, Ohio, Utah, West Virginia and Wyoming; and **Dominion Energy South Carolina**, a natural gas and electric utility in the Palmetto State.

Dominion Energy Virginia, Contracted Generation, Gas Transmission & Storage, Gas Distribution, and Dominion Energy South Carolina recorded revenues of \$1,948 million, \$274 million, \$833 million, \$737 million and \$767 million, respectively, in fourth-quarter 2019.

The company is committed to achieve net zero emission by 2050, while continuing to deliver reliable and affordable energy.



Reasons To Buy:

- ▲ Dominion Energy's portfolio realignment strategy focusing on regulated assets is evident from its investments in regulated infrastructure and other fields whose outputs are sold under long-term purchase agreements (PPAs). In the last two years, the company disposed of some of its merchant generation facilities and electric retail energy marketing business. Dominion Energy plans to invest \$26 billion in the 2019-2023 time period to strengthen its existing infrastructure. The company plans to invest \$8 billion in 2020, out of which 70% will be invested in growth projects and rest for the maintenance of existing assets.

Secured earnings from more than 95% regulated assets will continue to drive Dominion's bottom-line growth. Strong utility fundamentals in its service territories and increase in customer volumes are likely to drive demand and performance of the company. Planned investment in different segments and positive returns from the completed capital projects are expected to drive Dominion Energy's earnings at a rate of 5% per year through 2020 and 5% plus thereafter. In the past six months, shares of Dominion Energy have gained 5.9% compared with the industry's 0.3% rally.

- ▲ Dominion started operation of its 1,588-MW Greensville County project, which will assist the company to lower emission and will be accretive to its earnings. Its Cove Point liquefaction project is complete, and has started commercial operations from April 2018 and contributed toward the strong performance of the company. The company is in the process of adding 3,000 MW of solar or wind generation in the state of Virginia by 2022, of which presently 57% is complete.

Dominion Energy aims at cutting down carbon emissions in its power generation by 55% in 2030 and further by 100% in 2050 from 2005 levels. The company is working on offshore wind projects, battery storage projects and hydropower projects to lower emission. The company also announced plans to develop the 2,640-MW offshore wind project to further expand renewable footprint in Virginia. The project will be in three phases of 880 MW each and is targeted to come online in the 2024-2026 time period.

- ▲ Dominion Energy continues to replace aging equipment to improve system reliability and serve the customer base more efficiently. The company is also working on a project of strategic undergrounding of 4,000 miles of distribution lines. Notably, it has already completed undergrounding 1,300 miles of distribution lines. These initiatives will increase resilience of its operation and enable it to serve the expanding customer base more efficiently.

The company is working on grid transformation and has planned to invest \$500 million through 2021 for grid transformation. Dominion will install smart meters and smart grid devices, and provide customer information platform to enhance services to customers. The company also started deployment of electric school buses on the roads of Virginia. This initiative of Dominion is aimed at gradually replacing the fossil fuel-based school bus fleet with electric buses. Initially, 50 buses will be operational in 16 localities in 2020. Post successful implementation of this first phase, Dominion will place more electric buses in service with the state approval by 2025.

- ▲ Dominion Energy, taking into consideration the expected rise in demand for natural gas, has started to build up natural gas distribution infrastructure. The company is working to replace the aging infrastructure and expand the capacity of its existing pipelines. The company expects natural gas usage to increase in the range of 18-40% by 2050 from 2015 levels. Hence, the expansion of natural gas infrastructure will allow it to reap the benefits of rising natural gas demand. The company entered into a 50/50 partnership with Smithfield Foods to become a prominent renewable natural gas supplier of the United States.

Apart from organic ventures, the company has also taken the inorganic route to expand existing operations. Dominion completed the merger with SCANA Corporation on Jan 1, 2019, which added several high-quality businesses. The company also decided to acquire select marine LNG assets and a 5% equity stake in the Atlantic Coast Pipeline from Southern Company.

- ▲ Dominion Energy have sourced funds to reduce debt level by \$8 billion. Funds generated from new equity issue and divestment of non-core assets will help the company to repay debts and strengthen its balance sheet. In the first nine months of 2019, the company repaid long-term debt, including redemption premium worth \$8.6 billion. Repayment of debt will lower the company's interest burden and boost margins.

Investments to expand and strengthen its existing infrastructure, contribution from organic and inorganic assets, expanding customer base, as well as improving demand will act as tailwinds.

Reasons To Sell:

- ▼ Currently, several expansion projects, including pipelines, electric transmission lines, and conversion and other infrastructure projects are under various stages of development. If the company fails to obtain necessary approvals or allocate and coordinate sufficient resources or if projects get delayed for completion, it may have a material impact on the company's financials.

Dominion Energy extended the expected completion time of the Atlantic Coast Pipeline to year-end 2021 (from mid-2020) and the cost estimate of the project is currently \$8 billion. The completion of the project is delayed due to numerous environmental lawsuits. This delay can significantly affect the company's growth plans and lower the expected profit from this capital project. Atlantic Coast Pipeline is expected to start operation in early 2022. In the past six months, shares of Dominion Energy have gained 13.9% compared with the industry's 14.7% rally.

- ▼ Dominion Energy's 2020 operating earnings are expected to be impacted by share dilution, Millstone power station double outages and Cove point minority interest.

The issuance of 22 million shares for the acquisition of Dominion Energy Midstream Partners' common units, which resulted in dilution of Dominion Energy's shares, will adversely impact earnings of the company.

- ▼ Dominion Energy and its gas unit depend on third-party producers for the supply of natural gas. If a producer refuses to deliver a specific quantity of natural gas or NGL to Dominion, it would consequently reduce the volume of natural gas and NGL available for the company's pipelines and other assets. This will certainly affect revenues in case Dominion fails to replace the lost volumes.

Dominion's financial performance depends on its ability to manage the operations of its transmission and distribution businesses. The operations of the company face several operational risks including breakdown or damage of equipment or processes due to aging infrastructure, accidents and labor disputes.

- ▼ In addition, risks associated with the operation of nuclear facilities and unplanned outages at power stations in which Dominion has an ownership interest might derail management's planned production goal and adversely impact its earnings. A planned double outage at the Millstone nuclear power station in 2020 will adversely impact earnings of the company.

Third-party dependence on natural gas supply, delay in the Atlantic Coast Pipeline project, risks involved in operating nuclear facilities, share dilution and increase in pension expenses are headwinds.

Last Earnings Report

Dominion Energy Q4 Earnings Top, Revenues Miss Estimates

Dominion Energy Inc. reported fourth-quarter 2019 operating earnings of \$1.18 per share, beating the Zacks Consensus Estimate of \$1.16 by 1.7%. Operating earnings came near the midpoint of the company's guided range of \$1.10-\$1.25 per share. The bottom line improved from the year-ago earnings of 89 cents per share, aided by strong contribution from its business units.

GAAP earnings were \$1.32 per share compared with 97 cents in the year-ago quarter.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	-8.23%
EPS Surprise	1.72%
Quarterly EPS	1.18
Annual EPS (TTM)	4.23

Total Revenues

Dominion Energy's total revenues came in at \$4,475 million, lagging the Zacks Consensus Estimate of \$4,876 million by 8.2% but improving 33.1% from \$3,361 million in the year-ago quarter.

Highlights of the Release

Total operating expenses increased 24% year over year to \$3,134 million due to higher electric fuel and purchase gas prices, as well as an increase in operating and maintenance costs.

Interest and related charges in the reported quarter were \$401 million, down 8.9% from the year-ago period.

Dominion Energy announced that it is committed to achieve net zero carbon dioxide and methane emissions from power generation and gas infrastructure operations by 2050.

Segment Details

Dominion Energy Virginia: Net income from this segment was \$403 million, up 21% year over year.

Gas Transmission & Storage: The segment's net income was \$360 million, increasing 40.1% year over year.

Gas Distribution: Net income from this segment was \$173 million, down 46.6% on a year-over-year basis.

Dominion Energy South Carolina: Net income from this segment was \$98 million.

Contracted Generation: The segment's net income was \$114 million, which increased substantially from \$5 million in the year-ago period.

Corporate and Other: The segment's net loss was \$160 million, wider than a loss of \$121 million in the year-ago quarter.

Guidance

For first-quarter 2020, Dominion Energy expects operating earnings within \$1.05-\$1.25 per share. The company had reported earnings of \$1.10 per share in the year-ago period. The midpoint of the above guided range is \$1.15, higher than the current Zacks Consensus Estimate for the period of \$1.10.

Dominion Energy initiated its 2020 earnings guidance in the range of \$4.25-\$4.60 per share. The company had recorded earnings of \$4.24 per share in 2019. Expected positive drivers for 2020 earnings include higher regulated investment across electric and gas businesses, as well as lower financing costs due to decrease in average debt balance. The midpoint of the above guided range is \$4.425, higher than the current Zacks Consensus Estimate for the period of \$4.35.

Recent News

Dominion Starts Electric Bus Initiative to Cut Emissions - Jan 16,2020

Dominion Energy moves ahead with the plan of deployment of electric school buses on the roads of Virginia. This initiative of Dominion is aimed at gradually replacing the fossil fuel-based school bus fleet with electric buses. Initially, 50 buses will be operational in 16 localities in 2020.

Dominion to Reward Shareholders With 2.5% Dividend Hike - Dec 13,2019

Dominion Energy's board of directors announced a 2.5% hike in the quarterly dividend to 94 cents per share from the previous rate of 91.75 cents. The new quarterly dividend will be paid out in March 2020, subject to declaration by its board of directors.

The current annual dividend yield of the company is 4.6% compared with the industry's 2.9%.

Valuation

Dominion Energy shares are up 0.5% in the year to date period, and up 9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 3% and 5.9% respectively in the year to date period. Over the past year, the Zacks sub-industry is up 6.9% but the sector was down 10.7%.

The S&P 500 index is down 10.6% in the year to date period and 2.1% in the past year.

The stock is currently trading at 18.95X of forward 12 months earnings, which compares to 13.83X for the Zacks sub-industry, 12.65X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.5X and as low as 14.84X, with a 5-year median of 18.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 20.04X of forward 12 months earnings.

The table below shows summary valuation data for D

Valuation Multiples - D					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.95	13.83	12.65	15.75
	5-Year High	22.5	15.58	15.36	19.34
	5-Year Low	14.84	11.14	12.58	15.18
	5-Year Median	18.62	13.27	13.77	17.42
P/S F12M	Current	3.91	2.23	2.7	2.91
	5-Year High	4.12	2.45	3.31	3.44
	5-Year Low	2.88	1.54	1.76	2.54
	5-Year Median	3.49	1.87	2.03	3
P/B TTM	Current	2.17	1.87	3.39	3.69
	5-Year High	3.53	2.13	4.07	4.56
	5-Year Low	2.01	1.32	2.02	2.85
	5-Year Median	2.81	1.56	2.59	3.63

As of 3/10/2020

Industry Analysis Zacks Industry Rank: Top 37% (94 out of 253)



Top Peers

American Electric Power Company, Inc. (AEP)	Neutral
Duke Energy Corporation (DUK)	Neutral
Exelon Corporation (EXC)	Neutral
FirstEnergy Corporation (FE)	Neutral
NextEra Energy, Inc. (NEE)	Neutral
PPL Corporation (PPL)	Neutral
Southern Company (The) (SO)	Neutral
Xcel Energy Inc. (XEL)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	D Neutral	X Industry	S&P 500	DUK Neutral	NEE Neutral	SO Neutral
VGM Score	C	-	-	C	D	D
Market Cap	69.74 B	8.30 B	20.21 B	69.70 B	125.04 B	65.38 B
# of Analysts	5	2	13	5	5	5
Dividend Yield	4.52%	2.95%	2.18%	3.98%	2.19%	4.00%
Value Score	D	-	-	D	F	D
Cash/Price	0.00	0.04	0.05	0.00	0.00	0.03
EV/EBITDA	16.33	10.44	12.36	11.13	15.34	9.23
PEG Ratio	3.80	3.97	1.78	3.91	3.66	4.88
Price/Book (P/B)	2.16	1.66	2.77	1.51	3.02	2.05
Price/Cash Flow (P/CF)	10.66	8.50	11.04	7.77	14.64	9.88
P/E (F1)	18.52	19.33	16.09	18.26	28.28	19.53
Price/Sales (P/S)	4.21	2.20	2.17	2.78	6.51	3.05
Earnings Yield	5.23%	5.12%	6.20%	5.47%	3.53%	5.13%
Debt/Equity	1.07	1.06	0.70	1.23	0.91	1.37
Cash Flow (\$/share)	7.80	4.09	7.01	12.24	17.47	6.28
Growth Score	A	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	4.15%	4.91%	10.85%	1.95%	10.18%	2.48%
Proj. EPS Growth (F1/F0)	2.64%	4.44%	6.14%	2.85%	8.03%	2.12%
Curr. Cash Flow Growth	30.28%	3.75%	6.09%	11.06%	9.21%	-1.44%
Hist. Cash Flow Growth (3-5 yrs)	12.51%	5.53%	8.52%	5.82%	10.30%	6.18%
Current Ratio	0.61	0.82	1.24	0.62	0.53	0.78
Debt/Capital	49.85%	51.32%	42.57%	54.06%	47.90%	57.53%
Net Margin	8.74%	10.09%	11.69%	14.89%	19.62%	22.20%
Return on Equity	12.05%	9.72%	16.74%	8.31%	10.30%	10.38%
Sales/Assets	0.16	0.23	0.54	0.16	0.17	0.18
Proj. Sales Growth (F1/F0)	6.98%	1.90%	3.71%	1.64%	5.95%	3.60%
Momentum Score	C	-	-	D	A	B
Daily Price Chg	2.32%	0.47%	4.87%	0.50%	-2.12%	-0.23%
1 Week Price Chg	10.90%	4.78%	-0.67%	8.02%	7.54%	10.79%
4 Week Price Chg	-2.35%	-10.23%	-15.65%	-2.00%	-6.03%	-9.58%
12 Week Price Chg	2.04%	-2.64%	-13.60%	4.97%	6.63%	-2.64%
52 Week Price Chg	9.03%	1.84%	-2.27%	5.02%	33.97%	20.01%
20 Day Average Volume	4,132,835	495,879	2,778,843	4,716,577	3,254,310	6,701,035
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.13%
(F1) EPS Est 4 week change	0.14%	0.00%	-0.16%	1.15%	-0.31%	0.14%
(F1) EPS Est 12 week change	0.18%	0.00%	-0.57%	1.67%	0.00%	-0.07%
(Q1) EPS Est Mthly Chg	0.91%	0.00%	-0.49%	-4.46%	-2.34%	1.75%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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