

Dominion Energy, Inc. (D)

\$83.51 (As of 01/16/20)

Price Target (6-12 Months): **\$89.00**

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:D

Value: D

Growth: D

Momentum: F

Summary

Dominion Energy continues to benefit from strong performance 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. The new Southeast Energy segment is also contributing towards the strong performance of the company. 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.

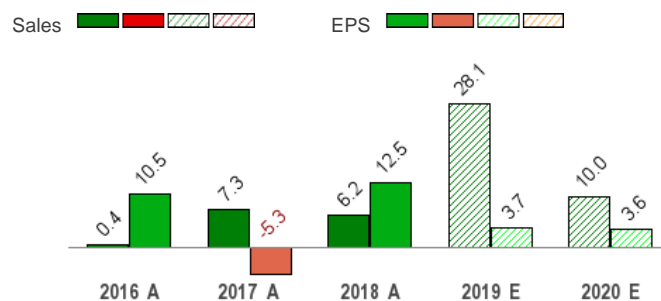
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.93 - \$68.03
20 Day Average Volume (sh)	2,400,024
Market Cap	\$68.7 B
YTD Price Change	0.8%
Beta	0.22
Dividend / Div Yld	\$3.67 / 4.4%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	-3.3%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/11/2020
Earnings ESP	0.7%
P/E TTM	21.2
P/E F1	19.2
PEG F1	3.9
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					18,824 E
2019	3,858 A	3,970 A	4,269 A	4,523 E	17,118 E
2018	3,466 A	3,088 A	3,451 A	3,361 A	13,366 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.11 E	\$0.97 E	\$1.23 E	\$0.88 E	\$4.35 E
2019	\$1.10 A	\$0.77 A	\$1.18 A	\$1.15 E	\$4.20 E
2018	\$1.14 A	\$0.86 A	\$1.15 A	\$0.89 A	\$4.05 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 01/16/2020. The reports text is as of 01/17/2020.

Overview

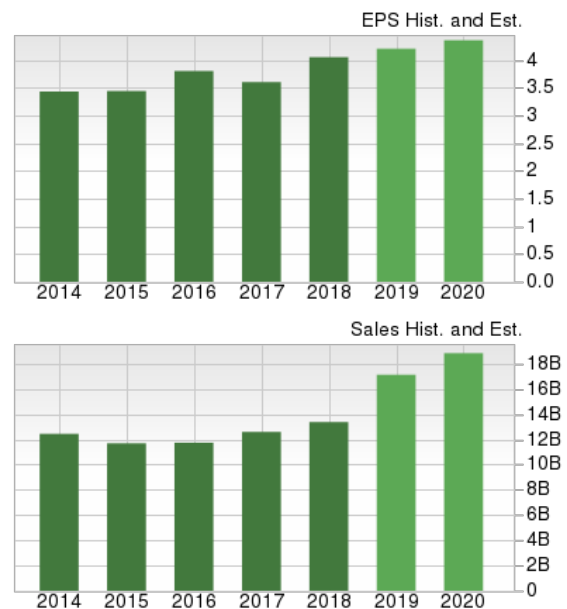
Richmond, VA-based Dominion Energy Inc. (earlier known as Dominion Resources Inc.) was founded in 1909. The company together with its subsidiaries produces and transports energy in the United States. It is a major energy company engaged in regulated and non-regulated electricity distribution, generation 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 26,000 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.

In connection with its corporate rebranding, Dominion Energy changed the names of its principal operating segments to Power Delivery, Power Generation, and Gas Infrastructure from Dominion Virginia Power, Dominion Generation and Dominion Energy, respectively.

From the second quarter, the company started reporting a new operating segment, known as the Southeast Energy Group, which comprises all former SCANA operations.

Power Delivery operates regulated electric transmission and distribution franchises in Virginia and northeastern North Carolina. The segment had recorded revenues of \$2,229 million 2018. **Power Generation** operates the company's fleet of regulated power stations, serving its electric utility franchise and a small merchant power fleet that supplies to wholesale markets. It had recorded revenues of \$7,115 million in 2018. **Gas Infrastructure** includes majority of Dominion's regulated natural gas operations, gas transmission pipelines and storage business. It had recorded revenues of \$4,248 million a year ago. **Corporate and Others, including Elimination** had incurred a loss of \$22 million in 2018. The company started to report another operating segment, **Southeast Energy**, from January 2019.



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. 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 7.9% compared with its industry's 7.1% rally.

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.

- ▲ Dominion started operation of its 1,588-MW Greenville 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 also progressing toward the goal of adding 3,000 MW of solar or wind generation in operation or under development in the state of Virginia by 2022 and is presently halfway fulfilling the target.

Dominion Energy aims at cutting down carbon emissions in its power generation by 55% in 2030 and further by 80% 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 1,000 miles. 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.

- ▲ 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 its existing operations. Dominion completed the merger with SCANA Corporation on Jan 1, 2019, which added several high-quality businesses to its existing business. From first-quarter 2019, the company started reporting a new operating segment, known as the Southeast Energy Group, which comprises all former SCANA operations. This segment contributed 18 cents in the third quarter and is expected to contribute more in the rest of 2019, thereby boosting overall earnings of the 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.

Reasons To Sell:

- ▼ Dominion Energy's 2019 operating earnings are expected to be impacted by share dilution, higher pension expenses and decline in earnings due to non-core asset sales.

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, may significantly impact earnings of the company.

- ▼ 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 its expected completion time of the Atlantic Coast Pipeline to early 2021 (from mid-2020) and increased the cost estimate of the project to \$7.3-\$7.8B from \$6.5B-\$7B. 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.

- ▼ 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.
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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 Beats Q3 Earnings Estimates, Tightens View

Dominion Energy Inc. reported third-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 upper end of the company's guided range of \$1.00-\$1.20 per share. Strong contribution from business units and favorable weather aided the company to improve from the year-ago earnings of \$1.15.

GAAP earnings were \$1.17 per share compared with \$1.30 in the year-ago quarter.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	-3.29%
EPS Surprise	1.72%
Quarterly EPS	1.18
Annual EPS (TTM)	3.94

Total Revenues

Dominion's total revenues came in at \$4,269 million, lagging the Zacks Consensus Estimate of \$4,414 million by 3.3% but improving 23.7% from \$3,451 million in the year-ago quarter.

Highlights of the Release

Total operating expenses increased 28.4% year over year to \$2,955 million due to higher electric fuel and purchase gas prices, and an increase in operating and maintenance costs.

Interest and related charges in the reported quarter were \$451 million, up 19.3% from the year-ago period.

In the reported quarter, the electric delivery customer base increased by 768,806 from the prior-year level. Electricity delivery volumes also improved 29.9% year over year to 31,193 gigawatt hours in the third quarter.

Segment Details

Power Delivery: Net income from this segment was \$185 million, up 13.5% year over year.

Power Generation: The segment's net income was \$490 million, increasing 18.4% year over year.

Gas Infrastructure: Net income from this segment was \$232 million, down 12.1% on a year-over-year basis.

Southeast Energy: Net income from this segment was \$147 million.

Corporate and Other: The segment's net loss was \$87 million compared with a loss of \$83 million in the year-ago quarter.

Financial Update

Cash, restricted cash and cash equivalents as of Sep 30, 2019 were \$378 million compared with \$268 million on Dec 31, 2018.

Long-term debt as of Sep 30, 2019 was \$29.83 billion compared with \$26.32 billion at the end of 2018.

Cash from operating activities in the first nine months of 2019 was \$3.7 billion compared with \$3.71 billion in the same period last year.

Guidance

For fourth-quarter 2019, Dominion expects operating earnings within \$1.10-\$1.25 per share. The company had reported earnings of 89 cents per share in the year-ago period. The midpoint of the above guided range is \$1.175, below the current Zacks Consensus Estimate for the period of \$1.09.

For 2019, Dominion narrowed its earnings guidance to the range of \$4.15-\$4.30 per share from the earlier projection of \$4.05-\$4.40. The company had recorded earnings of \$4.05 per share in 2018. The midpoint of the above guided range is \$4.225, higher than the current Zacks Consensus Estimate for the period of \$4.15.

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 7.9% in the last six months period, and up 21.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was up 7.1% and 4.1% in the last six months period, respectively. Over the past year, the Zacks sub-industry is up 21.7% and sector was up 2.8%.

The S&P 500 index is up 10.5% in the last six months period and 22.2% in the past year.

The stock is currently trading at 19.11X of forward 12 months earnings, which compares to 14.81X for the Zacks sub-industry, 13.64X for the Zacks sector and 18.96X 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 \$89 price target reflects 20.41X 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	19.11	14.81	13.64	18.96
	5-Year High	22.5	14.81	15.33	19.34
	5-Year Low	14.84	11.19	12.61	15.17
	5-Year Median	18.62	13.09	13.68	17.44
P/S F12M	Current	3.65	2.3	2.94	3.53
	5-Year High	4.12	2.3	3.26	3.53
	5-Year Low	2.88	1.5	1.7	2.54
	5-Year Median	3.46	1.83	1.95	3
P/B TTM	Current	2.42	1.88	4.1	4.5
	5-Year High	3.87	1.88	4.1	4.5
	5-Year Low	2.01	1.32	2.01	2.85
	5-Year Median	2.82	1.55	2.55	3.61

As of 1/16/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



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	D	-	-	B	C	C
Market Cap	68.74 B	9.42 B	24.22 B	67.93 B	123.30 B	69.37 B
# of Analysts	4	2	13	6	3	6
Dividend Yield	4.39%	2.71%	1.75%	4.06%	1.98%	3.75%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.04	0.04	0.01	0.01	0.04
EV/EBITDA	15.07	11.40	14.11	12.75	12.18	13.57
PEG Ratio	3.93	3.91	2.06	3.74	3.50	4.63
Price/Book (P/B)	2.42	1.83	3.34	1.49	3.07	2.18
Price/Cash Flow (P/CF)	11.12	9.36	13.57	8.27	15.42	10.19
P/E (F1)	19.20	19.82	18.90	18.20	27.91	20.83
Price/Sales (P/S)	4.45	2.34	2.65	2.71	6.49	3.18
Earnings Yield	5.21%	4.91%	5.29%	5.49%	3.58%	4.79%
Debt/Equity	1.20	1.08	0.72	1.24	0.90	1.37
Cash Flow (\$/share)	7.51	4.03	6.94	11.27	16.36	6.49
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	3.83%	4.40%	10.56%	1.57%	10.10%	2.48%
Proj. EPS Growth (F1/F0)	3.61%	5.41%	7.59%	1.86%	7.77%	2.36%
Curr. Cash Flow Growth	9.80%	7.23%	14.73%	10.90%	34.76%	3.14%
Hist. Cash Flow Growth (3-5 yrs)	8.56%	4.93%	9.00%	4.96%	11.01%	7.09%
Current Ratio	0.51	0.81	1.24	0.72	0.58	0.94
Debt/Capital	53.18%	51.70%	42.99%	54.28%	47.40%	57.67%
Net Margin	6.40%	9.75%	11.14%	14.10%	16.92%	21.02%
Return on Equity	11.65%	9.57%	17.16%	8.24%	10.59%	10.52%
Sales/Assets	0.16	0.24	0.55	0.17	0.17	0.19
Proj. Sales Growth (F1/F0)	9.97%	3.33%	4.23%	2.82%	4.59%	2.45%
Momentum Score	F	-	-	A	B	B
Daily Price Chg	0.63%	0.61%	0.27%	0.75%	0.27%	0.87%
1 Week Price Chg	0.38%	0.44%	0.39%	0.04%	1.34%	1.76%
4 Week Price Chg	2.09%	3.43%	2.17%	3.59%	4.83%	4.88%
12 Week Price Chg	0.96%	2.91%	6.65%	-3.01%	6.20%	6.78%
52 Week Price Chg	21.13%	18.12%	22.43%	8.80%	43.75%	40.53%
20 Day Average Volume	2,400,024	277,517	1,545,017	2,753,715	1,537,618	3,562,033
(F1) EPS Est 1 week change	-0.14%	0.00%	0.00%	0.20%	0.00%	-0.05%
(F1) EPS Est 4 week change	-0.14%	0.00%	0.00%	0.03%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.05%	-0.13%	-0.41%	-0.03%	-0.18%	0.26%
(Q1) EPS Est Mthly Chg	-0.89%	0.00%	0.00%	0.00%	0.00%	0.68%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Momentum Score	F
VGM Score	D

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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