

Dominion Energy, Inc. (D)

\$83.70 (As of 05/28/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

Dominion Energy is gaining from organic growth projects and its long-term \$26B capital spending plan for expansion of electric transmission and distribution, addition of renewable assets, and midstream assets is a major positive. Amid COVID-19 crisis, the company decided to continue providing services even in the event of non-payment of dues. Shares of the company have outperformed the industry in the past 12 months. However, its future earnings may be largely affected by share dilution. Further, the ongoing delay and rising cost of the Atlantic Coast Pipeline project may impact the company's profitability. It is also exposed to risks associated with the operation of nuclear facilities.

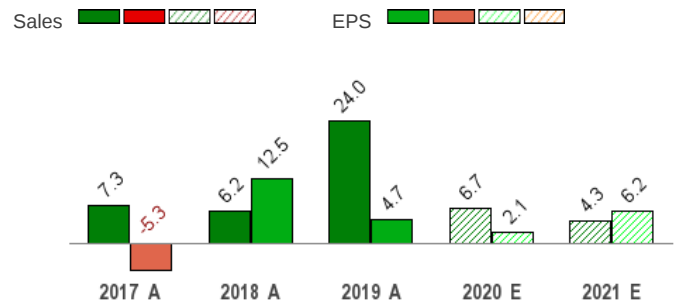
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$90.89 - \$57.79
20 Day Average Volume (sh)	3,531,315
Market Cap	\$70.2 B
YTD Price Change	1.1%
Beta	0.41
Dividend / Div Yld	\$3.76 / 4.5%
Industry	Utility - Electric Power
Zacks Industry Rank	Top 20% (52 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.9%
Last Sales Surprise	-5.0%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	07/29/2020
Earnings ESP	-4.2%
P/E TTM	19.8
P/E F1	19.3
PEG F1	4.0
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					18,443 E
2020	4,496 A	4,332 E	4,592 E	4,383 E	17,689 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	\$1.25 E	\$0.86 E	\$1.15 E	\$1.19 E	\$4.60 E
2020	\$1.09 A	\$0.84 E	\$1.19 E	\$1.10 E	\$4.33 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 05/28/2020. The reports text is as of 05/29/2020.

Overview

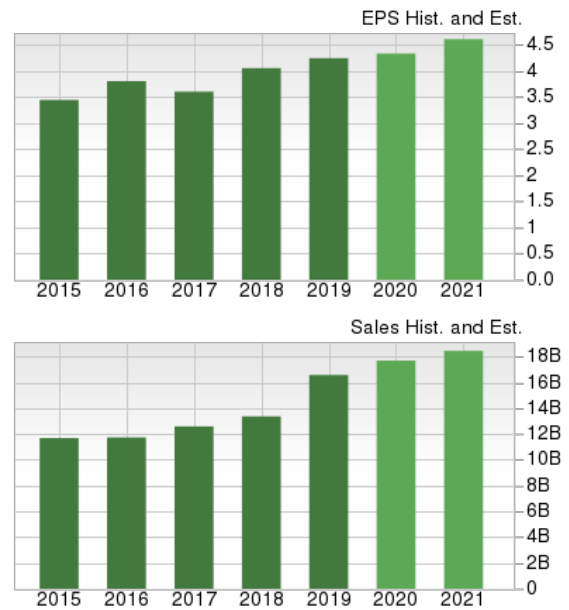
Richmond, VA-based Dominion Energy Inc. (earlier known as Dominion Resources Inc.) was founded in 1909. The company together with its subsidiaries produces and transports energy in the United States. It is a major energy company engaged in regulated and non-regulated electricity distribution, generation 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. In the past 12 months, shares of Dominion Energy have returned 12.6% compared with the industry's 0.3% gain.

Investments to expand its existing infrastructure, revenue decoupling, contributions from organic and inorganic assets, along with the expanding customer base will act as tailwinds.

Novel coronavirus has taken a heavy toll on the economy, with millions of people being unemployed and in financial distress. To assist customers who are in financial hardship, the company has decided to continue providing services even in the event of non-payment of dues.

Secured earnings from more than 95% regulated assets will continue to drive Dominion's bottom-line growth. Strong utility fundamentals in its service territories, increase in customer volumes and revenue decoupling 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.

- ▲ 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 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. Long-term objective of the company is to add 21.3 GW of solar and wind (offshore and onshore) projects by 2036 and 2.7 GW of storage projects by 2035.

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. It plans to invest \$3.5 billion in this project within the 2020-2024 time frame.

- ▲ 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. Gas operations are expected to contribute more than 40% to the company's earnings in 2020.

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 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's total liquidity as of May 1, 2020 was \$7.8 billion, which is enough to meet near-term debt obligations. Debt to capital at the end of first-quarter 2020 was 54.8%, higher than 2019 end levels of 52.7%, as the company repurchased shares during the first quarter. During the first quarter, it issued new debts worth \$2.45 billion, which sequentially increased the debt to capital level.

At first quarter-end, long-term debt of the company was \$31.1 billion, up from \$30.3 billion at the end of 2019. The company repaid \$932 million of long-term debt in the first quarter. The current ratio is 2.61, higher than the industry average of 1.31 and the Zacks S&P 500 composite's 0.94. Devon Energy's current ratio has improved sequentially from the 2019 end-level of 2. The current ratio of more than 1 indicates that the company will be able to meet debt obligations in the near future without any trouble. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the outbreak of COVID-19, its improving current ratio is reassuring for investors.

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. The cost and completion of the pipeline depends on Dominion being allowed to cut trees along the pipeline's route during the upcoming November 2020 to March 2021 season. If the company fails to get the necessary permission, the completion of the project will be further delayed.

- ▼ 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.

Even though the company is ready to counter the challenges posed by the outbreak of COVID-19, the ongoing social distancing norms and reduction in commercial activities could have an adverse impact on demand from commercial and industrial customer groups.

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

Last Earnings Report

Dominion Energy Q1 Earnings & Revenues Lag Estimates

Dominion Energy Inc. reported first-quarter 2020 operating earnings of \$1.09 per share, missing the Zacks Consensus Estimate by a penny. Operating earnings were lower than the midpoint of the company's guided range of \$1.05-\$1.25 per share.

The bottom line also declined from the year-ago earnings of \$1.10 per share. First-quarter 2020 earnings were negatively impacted by 9 cents due to milder-than-normal weather in its service territories.

GAAP loss was 34 cents per share compared with a loss of 84 cents in the year-ago quarter.

Total Revenues

Dominion Energy's total revenues came in at \$4,496 million, lagging the Zacks Consensus Estimate of \$4,733 million by 5% but improving 16.5% from \$3,858 million in the year-ago quarter.

Highlights of the Release

Total operating expenses decreased 10.9% year over year to \$3,865 million due to lower electric fuel and energy-related purchases, as well as an increase in operating and maintenance costs.

Interest and related charges in the reported quarter were \$490 million, up 4.5% from the year-ago period.

Segment Details

Dominion Energy Virginia: Net income from this segment was \$429 million, up 18.8% year over year.

Gas Transmission & Storage: The segment's net income was \$221 million, decreasing 0.4% year over year.

Gas Distribution: Net income from this segment was \$225 million, up 9.8% on a year-over-year basis.

Dominion Energy South Carolina: Net income from this segment was \$94 million, up 32.4% year over year.

Contracted Generation: The segment's net income was \$59 million, down 42.1% year over year.

Corporate and Other: The segment's net loss was \$97 million, wider than a loss of \$88 million in the year-ago quarter.

Guidance

For second-quarter 2020, Dominion Energy expects operating earnings within 75-85 cents per share. The company had reported earnings of 77 cents per share in the year-ago period. The midpoint of the above guided range is 80 cents, lower than the current Zacks Consensus Estimate for the period of 92 cents.

Dominion Energy reaffirmed 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. The midpoint of the above guided range is \$4.425, higher than the current Zacks Consensus Estimate for the period of \$4.31.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	-5.01%
EPS Surprise	-0.91%
Quarterly EPS	1.09
Annual EPS (TTM)	4.22

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.

Valuation

Dominion Energy shares are up 1.1% in the year to date period, and up 12.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector was down 10.5% and 12.9% respectively in the year to date period. Over the past year, the Zacks sub-industry is up 0.3% and the sector was down 15.9%.

The S&P 500 index is down 5.9% in the year to date period but up 8.4% in the past year.

The stock is currently trading at 18.89X of forward 12 months earnings, which compares to 13.31X for the Zacks sub-industry, 12.53X for the Zacks sector and 22.02X for the S&P 500 index.

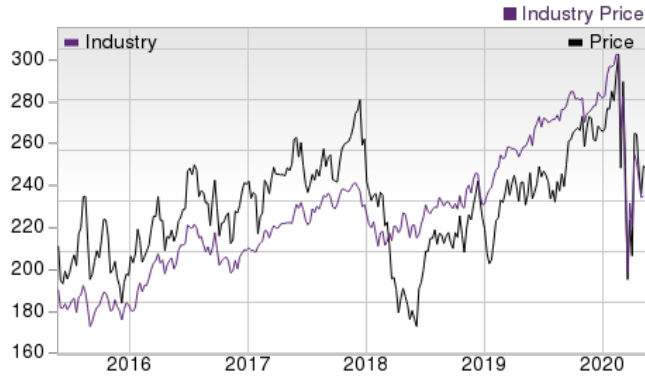
Over the past five years, the stock has traded as high as 22.5X and as low as 13.52X, with a 5-year median of 18.45X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 19.86X of forward 12 months earnings.

The table below shows summary valuation data for D

Valuation Multiples -D					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.89	13.31	12.53	22.02
	5-Year High	22.5	15.53	15.32	22.02
	5-Year Low	13.52	11.12	11.4	15.23
	5-Year Median	18.45	13.23	13.78	17.49
P/S F12M	Current	3.9	2.13	2.68	3.42
	5-Year High	4.12	2.45	3.29	3.44
	5-Year Low	2.79	1.54	1.75	2.53
	5-Year Median	3.52	1.88	2.04	3.01
P/B TTM	Current	2.31	1.8	3.6	4.14
	5-Year High	3.52	1.94	4.05	4.56
	5-Year Low	1.55	1.21	2.01	2.83
	5-Year Median	2.74	1.57	2.61	3.65

As of 5/28/2020

Industry Analysis Zacks Industry Rank: Top 20% (52 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
American Electric Power Company, Inc. (AEP)	Neutral	3
Duke Energy Corporation (DUK)	Neutral	3
Exelon Corporation (EXC)	Neutral	3
FirstEnergy Corporation (FE)	Neutral	3
NextEra Energy, Inc. (NEE)	Neutral	2
PPL Corporation (PPL)	Neutral	3
Southern Company The (SO)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	3

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	D	X Industry	S&P 500	DUK	NEE	SO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	B	C	D
Market Cap	70.25 B	8.59 B	21.49 B	63.00 B	123.03 B	60.15 B
# of Analysts	5	3	14	4	5	5
Dividend Yield	4.49%	3.26%	1.98%	4.40%	2.23%	4.50%
Value Score	D	-	-	C	C	C
Cash/Price	0.02	0.07	0.06	0.02	0.03	0.04
EV/EBITDA	16.37	9.73	12.50	10.56	15.22	8.97
PEG Ratio	3.96	3.59	2.87	3.56	3.59	4.51
Price/Book (P/B)	2.31	1.62	2.95	1.37	3.01	1.88
Price/Cash Flow (P/CF)	10.72	8.09	11.81	7.01	14.39	9.07
P/E (F1)	19.33	18.43	21.33	16.53	27.73	18.02
Price/Sales (P/S)	4.08	1.94	2.28	2.53	6.23	2.86
Earnings Yield	5.17%	5.37%	4.50%	6.05%	3.60%	5.55%
Debt/Equity	1.14	1.06	0.76	1.25	1.01	1.44
Cash Flow (\$/share)	7.80	4.15	6.96	12.24	17.47	6.28
Growth Score	B	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	4.24%	5.04%	10.87%	2.24%	10.27%	2.33%
Proj. EPS Growth (F1/F0)	2.08%	0.71%	-10.48%	2.62%	8.29%	1.54%
Curr. Cash Flow Growth	30.28%	4.20%	5.39%	11.06%	9.21%	-1.44%
Hist. Cash Flow Growth (3-5 yrs)	12.51%	5.54%	8.55%	5.82%	10.30%	6.18%
Current Ratio	0.63	0.86	1.29	0.67	0.71	0.99
Debt/Capital	51.38%	50.99%	44.54%	54.56%	50.29%	58.74%
Net Margin	10.80%	10.48%	10.59%	15.17%	17.77%	16.83%
Return on Equity	11.97%	9.54%	16.26%	8.13%	10.38%	10.57%
Sales/Assets	0.17	0.22	0.55	0.16	0.17	0.18
Proj. Sales Growth (F1/F0)	6.74%	0.00%	-2.53%	-0.51%	7.52%	0.40%
Momentum Score	B	-	-	B	B	C
Daily Price Chg	2.62%	1.02%	-0.65%	2.52%	4.24%	3.45%
1 Week Price Chg	2.93%	3.54%	4.99%	2.51%	2.63%	3.88%
4 Week Price Chg	8.52%	1.64%	4.28%	1.38%	8.76%	0.32%
12 Week Price Chg	-3.98%	-14.86%	-3.05%	-14.28%	-8.98%	-15.78%
52 Week Price Chg	12.64%	-9.49%	0.01%	0.35%	26.35%	7.38%
20 Day Average Volume	3,531,315	447,449	2,425,602	3,441,229	2,315,219	4,958,031
(F1) EPS Est 1 week change	0.37%	0.00%	0.00%	0.05%	0.18%	0.00%
(F1) EPS Est 4 week change	0.37%	-0.07%	-1.70%	1.85%	0.18%	-0.14%
(F1) EPS Est 12 week change	-0.55%	-2.99%	-16.00%	0.55%	0.24%	-0.44%
(Q1) EPS Est Mthly Chg	-8.36%	-0.40%	-3.25%	-4.46%	0.60%	-6.50%

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	B
Momentum Score	B
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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