



# Dominion Energy Inc. (D)

Updated November 11<sup>th</sup>, 2022 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$62	<b>5 Year CAGR Estimate:</b>	13.7%	<b>Market Cap:</b>	\$51B
<b>Fair Value Price:</b>	\$74	<b>5 Year Growth Estimate:</b>	6.5%	<b>Ex-Dividend Date:</b>	12/01/22
<b>% Fair Value:</b>	84%	<b>5 Year Valuation Multiple Estimate:</b>	3.7%	<b>Dividend Payment Date:</b>	12/20/22
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$101	<b>Years Of Dividend Growth:</b>	16
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Dominion Energy is a large electric and gas utility that serves about 7 million customers in 15 states. It has 66,200 miles of electric transmission and distribution lines in Virginia and North Carolina to deliver power to about 2.7 million customer accounts. Its power generation is fueled by nuclear, natural gas, coal, oil, biomass, water, wind and the sun. The SCANA acquisition that closed in January 2019 consists of a power generation & delivery business in South Carolina, a gas distribution business in North & South Carolina, and a regulated gas supply business that predominately serves Georgia. Dominion Energy is becoming a greener company by gradually reducing carbon dioxide and methane emissions. Dominion Energy reported its Q3 2022 earnings results on 11/4/2022. For the quarter, it reported 38% higher in operating revenues to \$4,386 million compared to the prior year's Q3. Operating earnings improved 2.8% to \$944 million. On a per-share basis, operating earnings was flat at \$1.11. Primarily, earnings didn't rise much because of higher operating expenses. For example, energy-related purchases like electric fuel was up 73%.

Results year to date provide a bigger picture. Revenue rose 22% to \$12,261 million, operating earnings climbed 6.7% to \$2,602 million. Operating earnings-per-share ("EPS") rose 3.0% to \$3.05.

Dominion Energy updated its 2022 operating earnings guidance to \$4.03 to \$4.18 per share. We maintain the midpoint of \$4.10 for our 2022 EPS guidance.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.75	\$3.09	\$3.05	\$3.20	\$3.44	\$3.60	\$4.05	\$4.24	\$3.54	\$3.86	<b>\$4.10</b>	<b>\$5.62</b>
<b>DPS</b>	\$2.11	\$2.25	\$2.40	\$2.59	\$2.80	\$3.04	\$3.35	\$3.67	\$3.45	\$2.52	<b>\$2.67</b>	<b>\$3.57</b>
<b>Shares<sup>1</sup></b>	576	582	585	596	628	645	655	826	813	811	<b>833</b>	<b>772</b>

Dominion Energy is, like many of its peers, not a high-growth company. EPS grew by 3.8% annually between 2012 and 2021. The utility achieved double-digit earnings growth in 2018. There are several reasons for this. First, the company benefited substantially from tax rate reductions. Second, earnings growth was fueled by the start-up of the expansion of the Cove Point LNG project. Cove Point LNG now allows for the import and export of liquefied natural gas, which boosts Dominion Energy's profits and cash flows meaningfully. SCANA expanded Dominion Energy's customer base & scale and boosted its revenues. Cost synergies can help boost earnings over time. Because of the gas transmission and storage asset sale, worth a total enterprise value of \$9.7 billion, to Berkshire Hathaway (BRK.A)(BRK.B) in Q4 2020, we see a corresponding 33% "cut" in Dominion Energy's EPS and dividend in 2020 in the table above. Dominion Energy targets net zero emissions (carbon dioxide and methane) by 2050. Investing in wind and solar projects will help it achieve that as well as boost growth. Dominion Energy has a ~\$37-billion five-year growth capital program from 2022-2026. Management estimates that will translate to operating EPS growth of about 6.5% and a 6.0% dividend growth rate through 2026 with a target payout ratio of approximately 65%. We went ahead and projected the same growth rate through 2027 as growth in the regulated utility doesn't change much. The utility has agreed to sell its West Virginia natural gas distribution utility for \$690 million. This transaction is expected to close in late 2022.

<sup>1</sup>Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	18.9	19.2	23.0	22.1	21.3	15.4	17.5	18.5	21.5	20.2	15.0	18.0
Avg. Yld.	4.1%	3.8%	3.4%	3.7%	3.8%	3.9%	4.7%	4.7%	4.5%	3.9%	4.3%	3.5%

Dominion Energy's shares are trading at 15 times earnings right now. Shares were trading at an average valuation of 19.8 times earnings from 2012-2021 in a period that it compounded its EPS by about 3.8% per year. Although its EPS is estimated to increase at a rate of about 6.5%, rising interest rates could be a drag on its valuation, as borrowing costs could increase for utilities that typically have large debt levels on their balance sheets. Its more recent average P/E from 2017-2021 was 18.6. We target a fair P/E of 18. So, the stock is trading at a slight discount.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	77%	73%	79%	81%	81%	84%	83%	87%	97%	65%	65%	64%

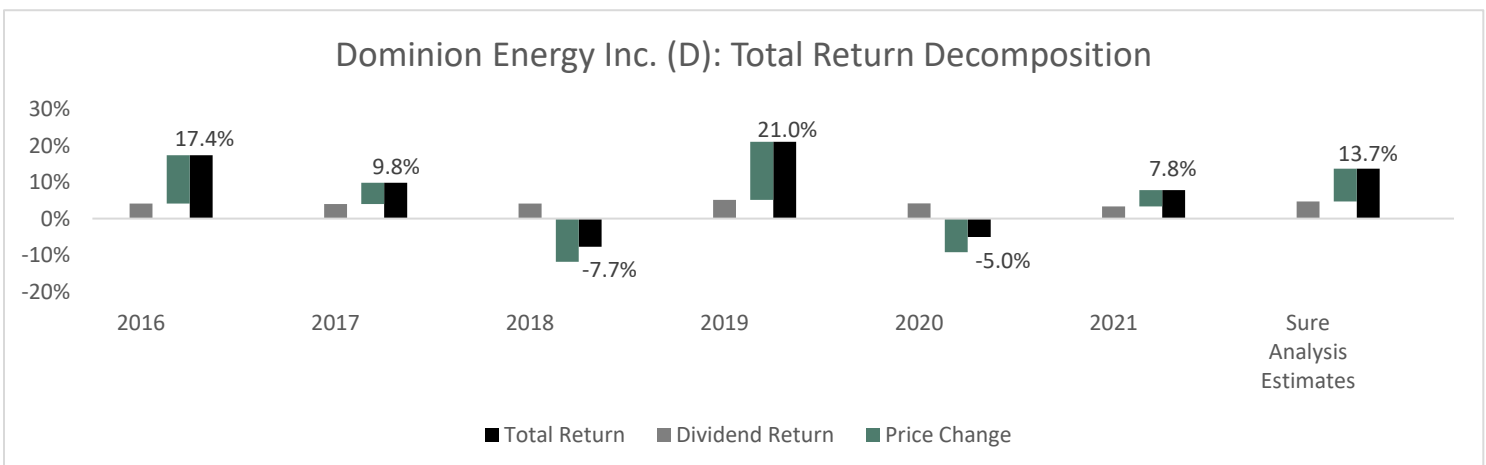
Dominion Energy's dividend payout ratio has risen considerably from 2012 to 2020. In 2020, it was at 97% due to the sale of a meaningfully large asset to Berkshire. The 2021 payout after the asset sale to Berkshire brings the payout ratio to be much more sustainable at about 65%. Management's decision to aim for a payout ratio of 65% is a good one, as it'll make the dividend much safer going forward. To achieve that, it plans to increase the dividend at a slower pace than its earnings growth.

The regulated utility is resistant to recessions, as demand for utilities is not dependent on whether the economy is in a solid condition or not. During the last financial crisis, Dominion Energy's profits declined by just 10%. The utility has a strong position in the markets it serves due to its scale and diversified customer base across states with attractive economic growth prospects. Competition by new market entrants is very unlikely since about 90% of the utility operations are state-regulated. Additionally, the assets that are required are very costly, which serves as a deterrent for potential competitors.

## Final Thoughts & Recommendation

Dominion Energy is slightly undervalued. We estimate an EPS growth rate of 6.5%. Along with a yield of 4.3% and valuation expansion of 3.7%, we expect total returns of 13.7% per year through 2027. We rate the stock as a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	12,835	13,120	12,436	11,683	11,737	12,586	11,199	14,401	14,172	13,964
<b>Gross Profit</b>	4,535	5,087	4,555	5,482	5,567	6,378	5,000	6,078	7,302	6,406
<b>Gross Margin</b>	35.3%	38.8%	36.6%	46.9%	47.4%	50.7%	44.6%	42.2%	51.5%	45.9%
<b>Operating Profit</b>	2,858	3,316	2,721	3,536	3,412	3,805	2,760	2,912	4,099	3,019
<b>Operating Margin</b>	22.3%	25.3%	21.9%	30.3%	29.1%	30.2%	24.6%	20.2%	28.9%	21.6%
<b>Net Profit</b>	302	1,697	1,310	1,899	2,123	2,999	2,447	1,358	-401	3,288
<b>Net Margin</b>	2.4%	12.9%	10.5%	16.3%	18.1%	23.8%	21.9%	9.4%	-2.8%	23.5%
<b>Free Cash Flow</b>	-8	-632	-1,906	-1,100	-1,934	-1,002	519	224	-793	
<b>Income Tax</b>	811	892	452	905	655	-30	522	209	83	425

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	46,838	50,096	54,327	58,648	71,610	76,585	77,914	103,823	95,905	
<b>Cash &amp; Equivalents</b>	248	316	318	607	261	120	268	135	172	
<b>Accounts Receivable</b>	1,621	1,695	1,514	1,200	1,523	1,660	1,749	2,085	2,295	
<b>Inventories</b>	1,259	1,176	1,410	1,348	1,524	1,477	1,418	1,616	1,550	
<b>Goodwill &amp; Int. Ass.</b>	3,666	3,646	3,614	3,864	7,017	7,090	7,080	8,080	8,146	
<b>Total Liabilities</b>	36,213	38,454	42,370	45,046	54,770	57,215	55,866	69,790	69,444	
<b>Accounts Payable</b>	1,137	1,168	952	726	1,000	875	914	1,023	944	
<b>Long-Term Debt</b>	21,486	22,776	25,955	28,802	35,095	37,324	35,140	32,309	37,014	
<b>Shareholder's Equity</b>	10,568	11,642	11,555	12,664	14,605	17,142	20,107	29,607	23,730	
<b>LTD/E Ratio</b>	2.03	1.96	2.25	2.27	2.40	2.18	1.75	1.01	1.42	

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	0.7%	3.5%	2.5%	3.4%	3.3%	4.0%	3.2%	1.5%	-0.4%	
<b>Return on Equity</b>	2.7%	15.3%	11.3%	15.7%	15.6%	18.9%	13.1%	5.5%	-1.5%	
<b>ROIC</b>	0.9%	5.1%	3.6%	4.7%	4.5%	5.5%	4.3%	2.2%	-0.6%	
<b>Shares Out.</b>	576	582	585	596	628	645	655	826	813	811
<b>Revenue/Share</b>	22.36	22.64	21.28	19.68	19.02	19.79	17.10	17.80	17.05	17.24
<b>FCF/Share</b>	-0.01	-1.09	-3.26	-1.85	-3.13	-1.58	0.79	0.28	-0.95	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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