

# Dominion Energy

## D-Day Is Here: 5-7% EPS Growth Off FY25 \$3.30 Does Not Support Current Valuation

Reiterate Rating: UNDERPERFORM | PO: 40.00 USD | Price: 47.83 USD

### Business review concludes at last. Our core view holds

We reiterate the sole Underperform on the Street on shares of diversified utility Dominion Energy (D) after the culmination of the long business review reset with EPS guidance that lagged investor expectations. We attended Dominion's in-person business review refresh and share our initial highlights. *We still view shares as relatively expensive with below average growth (7.5% rate base and 5-7% EPS) trading at an average/premium valuation. Based upon the point EPS guidance and RNG tax credit roll-off, the full growth rate appears to be 5-6%. Our core more cautious Dominion thesis has been premised on below-average EPS growth and above-average non-utility earnings mix warranting a discount vs peers.*

### \$3.30 FY25 EPS base misses the mark

FY25 guidance base for long-term growth was initiated at \$3.30 excluding ~\$0.10 RNG, a miss vs compares with \$3.40 BofA pro-forma/Consensus. Our investor conversations ahead of the business review have centered on expectation of a 6-7% EPS CAGR off \$3.35-\$3.40 FY25 starting point. Assuming 5% EPS growth in Millstone double outage years and 7% in the subsequent years, implied guidance is \$3.56 2026 and \$3.80 2027, both including \$0.10 RNG tax credits. The 2026 is +2% above BofA but -2% below Consensus. 2027-2028 are similarly below BofA/Consensus. Based on the EPS growth guidance, the payout ratio will be above 70% through at least 2027, indicating no dividend growth until 2028 at the earliest.

### What was the biggest delta? Slower rate base growth

Rate base growth is "only" 9% in Virginia, below the 10%+ we expected. Management is targeting a ~15% FFO / debt annually with \$3.5Bn common equity (\$700Mn per year average) plus \$2.0Bn hybrid securities (\$500Mn per year). This compares with \$5.3Bn BofA equity premised on a higher rate base plan. The effective comparable equity needs are \$4.5Bn assuming 50% equity credit for hybrids, ~\$800Mn lower than BofA but more than offset by lower capital investment needs. *The balance sheet metrics are favorably higher than we assumed at ~15% 2025 vs 14.7% average 2025-2028, a positive element.*

### Earnings quality higher but still less regulated than peers

We give management credit for the actions taken to improve earnings quality and address shortcomings in the prior plan pre-business reset. Dominion guides to ~10% EPS from non utility operations (12-13% in 2024-2025) which is higher than peers. In 2025 this indicates \$2.95 of utility earnings. Some of the items we believe warrant discount valuations include approximately +\$0.20 pension income, +\$0.15-\$0.20 RNG, +\$0.05 offshore wind vessel. The effective tax rate is guided to decline further below statutory to 13-15% 2026-2029 vs 18-19% in 2024 and 15-17% in 2025. Every 1pp of ETR represents ~\$0.04 EPS implying a benefit in the growth rate from a 2025 starting point. The company expects to move from a +\$150Mn cash tax benefit 2026-2028 to a -\$150Mn cash tax payer 2029. Management disclosed \$100Mn pre-tax dis-synergies embedded in the plan from the divestitures with ~\$55Mn corporate cost cut assumptions embedded.

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#### Stock Data

Price	47.83 USD
Price Objective	40.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-3-7
52-Week Range	39.18 USD - 58.69 USD
Mrkt Val (mn) / Shares Out (mn)	40,024 USD / 836.8
Free Float	99.8%
Average Daily Value (mn)	242.06 USD
BofA Ticker / Exchange	D / NYS
Bloomberg / Reuters	D US / D.N
ROE (2023E)	6.9%
Net Dbt to Eqty (Dec-2022A)	162.6%
ESGMeter™	High

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RNG: Renewable natural gas

## Breaking down the new EPS growth rate

The Exhibit below shows 5% growth in double-outage years for the base in 2026 and 2027 with 7% growth in 2027 and 2030 subsequent years. This cadence would indicate a 5.7% base EPS growth in a 2029 double outage year or 6% in a 2030 non-outage period. This is comparable with “Bias to midpoint of ~6% over the long-range plan”. On a consolidated basis with a RNG tax credit roll-off, the EPS growth rate would be ~5%.

### Exhibit 1: Dominion EPS Guidance Comparison

Dominion's new growth rate appears to support 5-6%

D EPS Guidance	2024	2025	2026	2027	2028	2029	2030	'25-'28	'25-'29
Base	\$2.75	\$3.30	\$3.46	\$3.70	\$3.92	\$4.12	\$4.41	6.0%	5.7%
RNG	\$0.00	\$0.10	\$0.10	\$0.10	\$0.00	\$0.00	\$0.00	-100%	-100%
<b>Total</b>	<b>\$2.75</b>	<b>\$3.40</b>	<b>\$3.56</b>	<b>\$3.80</b>	<b>\$3.92</b>	<b>\$4.12</b>	<b>\$4.41</b>	<b>4.9%</b>	<b>5.0%</b>
<b>Assume Growth (%)</b>		<b>23%</b>	<b>5.0%</b>	<b>7.0%</b>	<b>6.0%</b>	<b>5.0%</b>	<b>7.0%</b>		
Non-Utility EPS ~10%	\$0.33	\$0.44	\$0.36	\$0.38	\$0.39	\$0.41	\$0.44	-3.8%	-1.7%
BofA	2.86	\$3.40	\$3.64	\$3.79	\$3.83			4.0%	
Delta	-4.0%	-0.1%	-2.3%	+0.3%	+2.4%			+0.9%	
Consensus	\$3.06	\$3.40	\$3.62	\$3.87	\$4.05			6.0%	
Delta	-10.2%	-0.1%	-1.7%	-1.8%	-3.1%			-1.1%	
Dividend: \$2.67 Today	2.67	2.67	2.67	2.67	2.67	2.67	2.67		
Payout: 'In the 60%'	97.1%	78.6%	75.0%	70.2%	68.0%	64.8%			

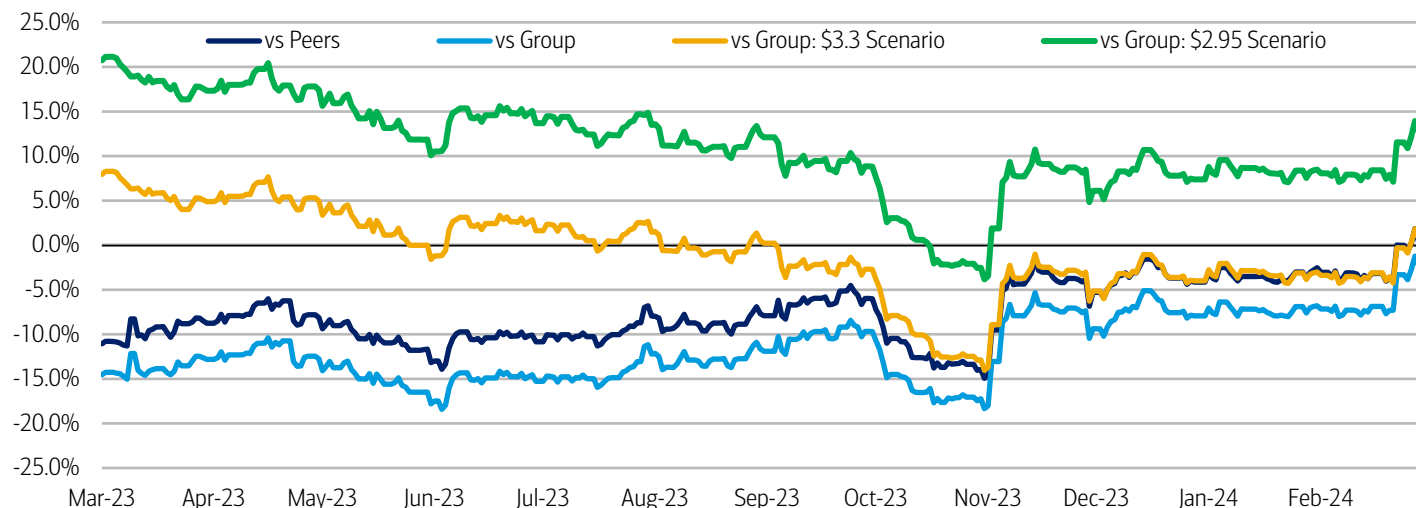
Source: Company Filings, Bloomberg, & BofA Global Research

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Relative to the utilities sector trading at 14.4x 2025 and 13.3x 2026, Dominion is trading at 14.0x 2025 and 13.4x 2026, including RNG tax credits and unregulated earnings.

### Exhibit 2: Dominion 2025 Relative Valuation: \$3.40 Consensus, \$3.30 Scenario ex-RNG Tax Credits, and \$2.95 Utility EPS

Dominion is trading at a premium to the utilities sector using the new \$3.30 base guidance excluding RNG tax credits



Source: Company Filings, Bloomberg, & BofA Global Research

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## Price objective basis & risk

### Dominion Energy (D)

We value Dominion Energy at \$40 using a 2026E sum-of-the-parts analysis. For the utilities we apply the comparable 13.5x electric peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia and -1.0x for South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND nuclear and bill credits). The pension income is valued 4x P/E, consistent with the 12/31/22 valuation levels.

Contracted assets are valued using 2026 EV/EBITDA: 5x Millstone (13% FCF Yield), and 5x for renewables. For remaining debt beyond that allocated to state utilities, we include a 50% weight towards a straight netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for diversified utilities with relatively higher levers of leverage. The interest rate hedge is valued at the stated \$1Bn value 9/30/23 less tax.

Risk to achievement of the Price Objective are 1) regulatory, legislative, and political actions, 2) ability to earn or exceed the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure and rate base forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, 7) natural disasters, nuclear accidents, and weather, 8) nuclear performance, 9) inflation, & 10) offshore wind construction.

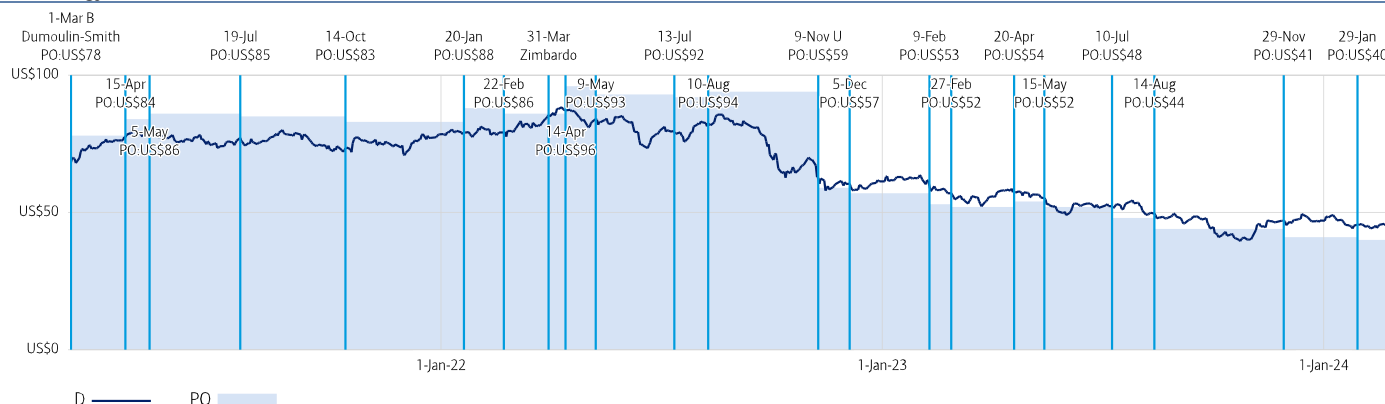
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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