



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

SO - NYSE (8/2/17)	\$49.78
Price Target	NA
52-Week Range	\$53.73 - \$46.20
Shares Outstanding (mm)	998.0
Market Cap. (\$mm)	\$49,680
3-Mo. Average Daily Volume	4,702,000
Institutional Ownership	52.0%
Debt/Total Capital	57.1%
ROE (ttm)	11.2%
Book Value/Share (est.)	\$21.47
Price/Book Value	2.3x
Indicated Dividend / Yield	\$2.32 4.7%
Dividend Cycle	March, June, Sept., Dec.

EPS FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q					
2Q					
3Q					
4Q					
Year	\$2.89	\$2.98	\$2.95	\$3.12	\$3.02
P/E	17.2x		16.9x		16.5x
Payout	77%		79%		77%

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	\$19,896	--	\$20,250	--	\$20,765

Company Description: Atlanta-based Southern Company is the second largest utility in the United States in terms of customer base. The company serves 9 million electric and gas customers in nine states. In addition, it operates Southern Power, a growing competitive generation company, as well as having a presence in fiber optics and wireless communications. 2015 Generation mix: Natural Gas 47%, Coal 31%, Nuclear 15%, Hydro/Other 7%.

Southern Company

SO -- NYSE -- Neutral -- 2

More clarity on Kemper and Vogtle projects

Investment Highlights

- Southern reported second quarter adjusted earnings of \$0.73 per share versus \$0.75 per share in the second quarter of 2016.** Earnings were slightly above expectations. Positive earnings drivers included the results of Southern Company Gas, which was acquired on July 1, 2016 and the retail effects at Southern Company's traditional electric operating companies. These positives were offset by mild weather, increased interest expense and share issuances. Through the first half of the year the company posted earnings of \$1.39 per share compared to \$1.34 per share in the same time period last year.
- Management updated the situations with its Kemper County coal plant and Vogtle nuclear plants.** Southern took a \$2 billion after tax charge in late June relative to its Kemper County coal gasification plant. The gasification portion of the plant has been completely written off. The move comes after years of delays and major cost overruns. SO believes the impact of the write-off will be \$0.08 to \$0.10 per share going forward. With regard to the Vogtle nuclear units, Southern is in the process along with its partners in determining whether or not to go forward with the project. The issue has added relevance following SCANA Corp's recent decision to cancel its nuclear construction project. SO estimates that to complete the project the company would incur additional capital costs of \$1.0 to \$1.7 billion. In addition, the project would be delayed by 14 to 27 months. The company expects to file a recommendation with the Georgia Public Service Commission in late August.
- We maintain our Neutral rating on Southern.** We note that the company continues to believe that it can achieve a 5% long term earnings growth rate. In addition, SO expects to continue to increase its dividend by \$0.08 per share annually. The stock offers an attractive 4.7% dividend yield. For the average utility investor, we would maintain positions in the stock.

Note Important Disclosures on Pages 2 and 3.

Note Analyst Certification on Page 2.

Suitability

We assign a 2 suitability rating to Southern Company. The company operates a large regulated utility business that generates consistent earnings. Dividends have been increased for 16 consecutive years. We would note that the company is now the only U.S. utility constructing new nuclear plants. If completed, these would represent the first new units in over 30 years. Because of this ongoing multiyear construction project there could potentially be ongoing financial and headline risks associated with SO's large construction projects. However, we view Southern as a suitable holding for income oriented investors.

Prices of other stocks mentioned: SCANA Corp. (SCG-\$67.15).

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

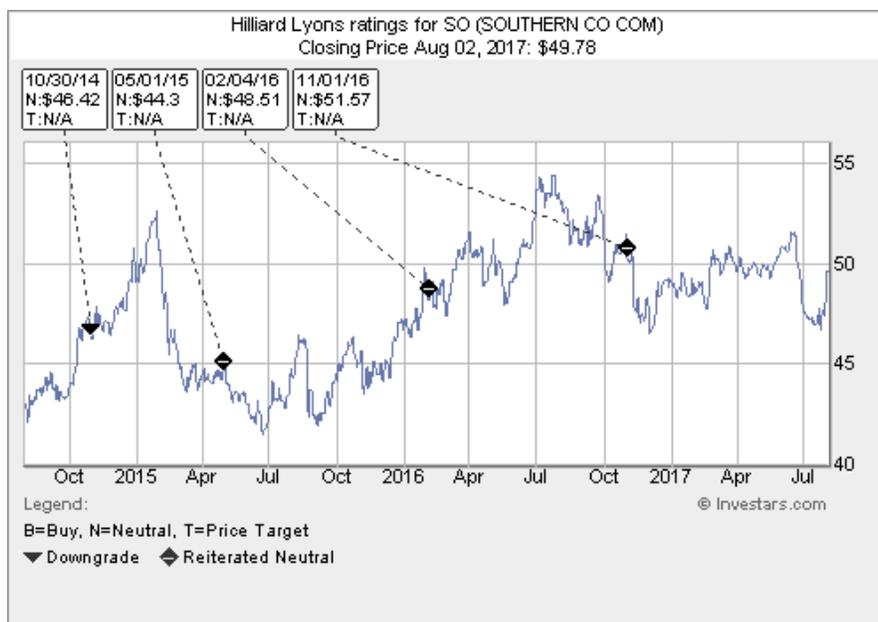
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
	# of	% of		
<u>Rating</u>	<u>Stocks Covered</u>	<u>Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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