



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

SO - NYSE (2/22/17)	\$48.99
Price Target	NA
52-Week Range	\$54.64 - \$46.20
Shares Outstanding (mm)	990.0
Market Cap. (\$mm)	\$48,500
3-Mo. Average Daily Volume	5,426,000
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	\$2.24 4.6%
Dividend Cycle	March, June, Sept., Dec.

EPS FY 12/31

	2015	2016A	Prior 2017E	Curr. 2017E
1Q				
2Q				
3Q				
4Q				
Year	\$2.89	\$2.89	\$3.00	\$2.98
P/E	17.0x	17.0x		16.4x
Payout	75%	78%		75%

Note: Figures exclude non-recurring items

Revenue (\$mm)

	2015	2016A	Prior 2017E	Curr. 2017E
1Q	--	--	--	--
2Q	--	--	--	--
3Q	--	--	--	--
4Q	--	--	--	--
Year	\$17,489	\$19,896	--	\$20,250

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 33%, Nuclear 16%, Hydro/Other 4%.

Southern Company

SO -- NYSE -- Neutral -- 2

Company reports solid fourth quarter results and introduces 2017 earnings guidance

Investment Highlights

- Southern reported fourth quarter earnings of \$0.24 per share versus \$0.44 per share in the fourth quarter of 2015.** Earnings were below the consensus estimate of \$0.30 per share. For the full year, SO earned \$2.89 per share, flat with 2015's total. The company's traditional electric operating companies contributed \$2.23 billion in net income in 2016 compared to \$2.18 billion in 2015. Also, Southern Power, the company's wholesale subsidiary, continued its strong growth last year. This business added \$338 million of net income in 2016 versus \$215 million in 2015. The company's acquisition of AGL Resources, now named Southern Company Gas, added \$114 million. These gains in net income were offset by higher parent expense along with dilution from shares offered in conjunction with the acquisition.
- Management introduces 2017 earnings guidance.** Southern expects this year's earnings to be in a range of \$2.90 to \$3.02 per share. We are trimming our 2017 EPS estimate by \$0.02 to \$2.98 to reflect new SO guidance. This would represent just a 3.1% increase in earnings from last year. The company expects to grow its long-term earnings by a 5% annual rate off of 2017 levels. Much of the anticipated growth is expected to come from the company's large capital investment program.
- The in-service date of SO's Kemper County integrated coal gasification combined cycle plant has been delayed to mid-March.** In addition, the timetable on SO's Vogtle nuclear projects has also been pushed back. These announcements are reminders that there remain risks associated with large construction projects.
- We maintain our Neutral rating on Southern.** While we continue to like the company and believe it has a solid fundamental outlook, we believe it may deliver earnings growth less than that of its peers. However, the stock offers an attractive 4.6% dividend yield and we expect ongoing annual dividend hikes.

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 15 consecutive years. We would note that the company is one of two U.S. utilities constructing new nuclear plants for the first time in over 30 years. Because of this ongoing multiyear construction project there could potentially be financial and headline risks. However, we view Southern as a suitable holding for income oriented investors.

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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