



COMPANY UPDATE

Key Metrics

SO - NYSE (5/3/17)	\$49.47
Price Target	NA
52-Week Range	\$54.64 - \$46.20
Shares Outstanding (mm)	993.0
Market Cap. (\$mm)	\$49,123
3-Mo. Average Daily Volume	5,298,000
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		\$3.12
P/E	17.1x		16.6x		15.9x
Payout	77%		78%		74%

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

SO reports good first quarter results; uncertainty surrounding construction program persists

Investment Highlights

- **Southern reported first quarter earnings of \$0.66 per share versus \$0.58 per share in the first quarter of 2016, and above the consensus estimate of \$0.60 per share.** Results were boosted by the contribution of Southern Company Gas, formerly AGL Resources, which was acquired last year. Earnings were also aided by rate increases and lower non-fuel operating and maintenance costs at SO's traditional electric operating companies. These positive drivers were partially offset by mild weather, interest expense, and share issuances.
- **Management reaffirms 2017 earnings guidance.** Southern continues to expect this year's earnings to be in a range of \$2.90 to \$3.02 per share. We are maintaining our 2017 EPS estimate of \$2.98 and initiating a 2018 estimate of \$3.12. SO continues to expect to deliver consistent 5% annual earnings growth. Much of the anticipated growth is expected to come from the company's large capital investment program.
- **The uncertainty associated with SO's construction projects persists.** Westinghouse, the primary contractor for the construction of SO's new Vogtle nuclear units, declared bankruptcy in March. While an interim agreement has allowed for the continued construction, there remains significant uncertainty surrounding the costs, recovery of costs, timetable, and ultimately whether the plants are completed. There is also continued uncertainty associated with the construction of SO's Kemper County generation plant in Mississippi, which has proven problematic in recent years.
- **Dividend raised by \$0.08 to \$2.32 per share.** This marked the 16th straight year of dividend increases.
- **We maintain our Neutral rating on Southern.** While we continue to believe SO has a solid fundamental outlook, there remains enough uncertainty for us to stay on the sidelines. The stock offers an attractive 4.7% dividend yield and its core business remains solid.

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 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 ongoing financial and headline risks associated with SO's large construction projects. 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.

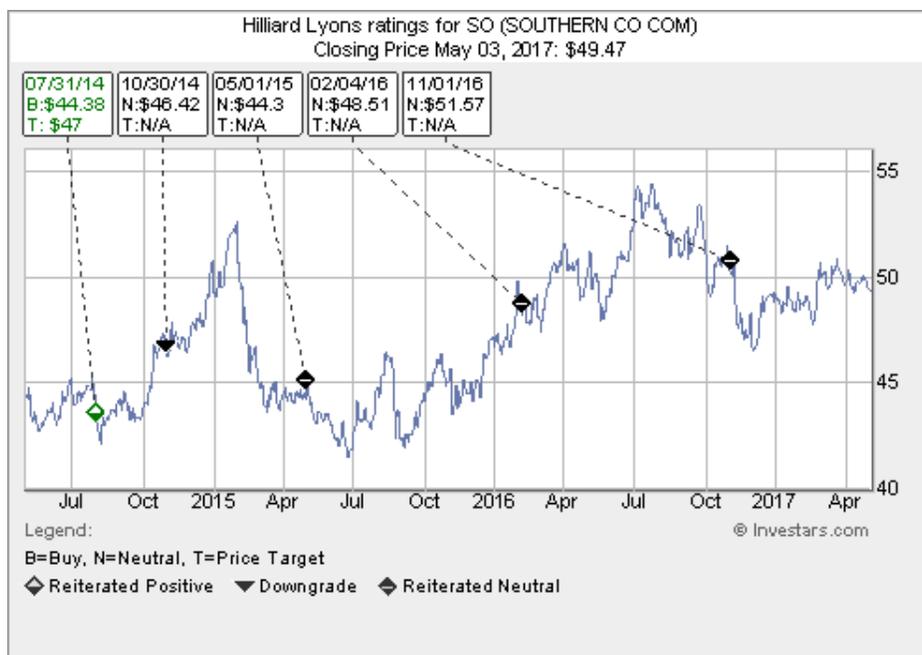
Suitability Ratings

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



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
<u>Rating</u>	<u># of Stocks Covered</u>	<u>% of Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

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