



COMPANY UPDATE

Key Metrics

SO - NYSE (11/1/17)	\$52.08
Price Target	NA
52-Week Range	\$46.20 - \$52.59
Shares Outstanding (mm)	1,003.0
Market Cap. (\$mm)	\$52,236
3-Mo. Average Daily Volume	4,439,000
Institutional Ownership	52.0%
Debt/Total Capital	57.1%
ROE (ttm)	11.2%
Book Value/Share (est.)	\$23.38
Price/Book Value	2.2x
Indicated Dividend / Yield	\$2.32 4.4%
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		\$2.95		\$3.02
P/E	18.0x		17.7x		17.2x
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. Generation mix: Natural Gas 47%, Coal 27%, Nuclear 16%, Hydro/Other 10%.

Southern Company

SO -- NYSE -- Neutral -- 2

Company reaffirms 2017 guidance and provides further update on Vogtle project

Investment Highlights

- Southern reported third quarter adjusted earnings of \$1.12 per share versus \$1.27 per share in the third quarter of 2016.** Earnings were above the consensus estimate of \$1.07 per share. The year-over-year decline in earnings was due to mild weather in the company's service territory, timing for Southern Power tax credits, increased interest expense, and share issuances. Through the first nine months of 2017 Southern has earned \$2.51 per share compared to \$2.62 per share in the same time period last year.
- Management provided an update regarding the situation with the construction of the Vogtle nuclear plants.** During the third quarter Southern made a determination that it intends to go forward with the project. The company expects Unit 3 to be in-service by November 2021 and Unit 4 to be in-service by November 2022, with an estimated total cost for subsidiary Georgia Power for both units of \$8.8 billion. When factoring in expected payments under the Toshiba parent guarantee, the revised new total cost of the projected is estimated to be \$7.1 billion, which represents an increase of \$1.4 billion over the previous estimate. The company filed its recommendation to go forward with the project with the Georgia Public Service Commission in late August and hearings are expected this month. A decision by the Public Service Commission (PSC) is expected by early February. We believe odds favor the PSC approving the recommendation to proceed with the project.
- We maintain our Neutral rating on Southern.** We note the company continues to believe it can achieve a 5% long-term earnings growth rate. While near-term growth may be less than its peers, we still believe SO remains a solid holding. The stock carries an attractive 4.4% dividend yield and we expect ongoing annual increases. We would maintain positions for income oriented investors seeking modest capital appreciation.

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.

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		
Rating	Stocks Covered	Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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