

Southern Company (SO)

\$68.99 (As of 02/21/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

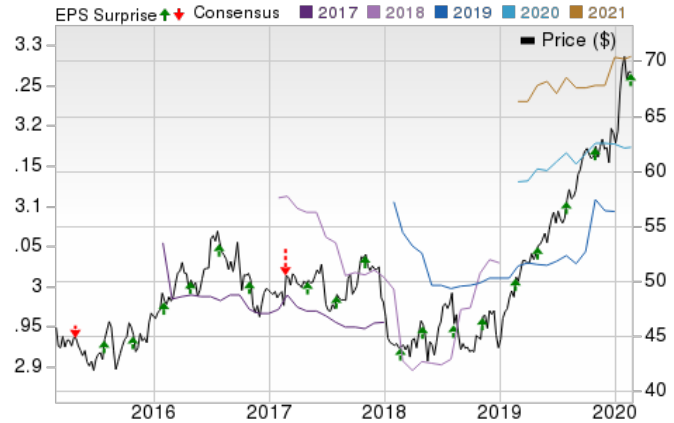
Growth: D

Momentum: A

Summary

Southern Company shares have outperformed the Zacks Utility - Electric Power industry over the past year (45% versus 25.5%). Leveraging the demographics of its operating territories, as in healthy population and job growth, the firm has gradually increased its customer base. With good rate base growth and constructive regulation, Southern Company is expected to generate steady earnings and dividend growth in the coming years. However, elevated leverage of the firm, along with continued timing and cost overrun issues over its Vogtle project, are major overhangs. While the electric utility holding company's debt-to-capital ratio of 60.3% restricts financial flexibility, its \$25-billion Vogtle nuclear plant has already exceeded budget and is years behind schedule. As such, Southern Company warrants a cautious stance from the investors.

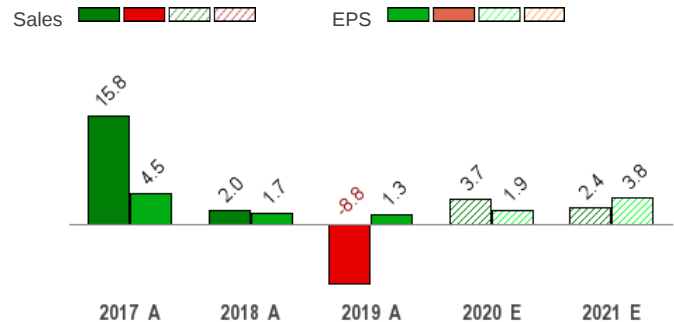
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.10 - \$49.01
20 Day Average Volume (sh)	4,315,130
Market Cap	\$72.4 B
YTD Price Change	8.3%
Beta	0.15
Dividend / Div Yld	\$2.48 / 3.6%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 41% (150 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.9%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	NA
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					22,741 E
2020					22,218 E
2019	5,412 A	5,098 A	5,995 A	4,914 A	21,419 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.73 E	\$0.85 E	\$1.40 E	\$0.30 E	\$3.29 E
2020	\$0.76 E	\$0.84 E	\$1.32 E	\$0.26 E	\$3.17 E
2019	\$0.70 A	\$0.80 A	\$1.34 A	\$0.27 A	\$3.11 A

*Quarterly figures may not add up to annual.

P/E TTM	22.2
P/E F1	21.8
PEG F1	4.8
P/S TTM	3.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

Overview

Founded in 1945, Atlanta, GA-based Southern Company is one of the largest utilities in the United States. The company deals with the generation, transmission and distribution of electricity. Following its merger with AGL Resources on July 1, 2016, Southern Company serves approximately nine million customers through its seven electric and natural gas distribution units.

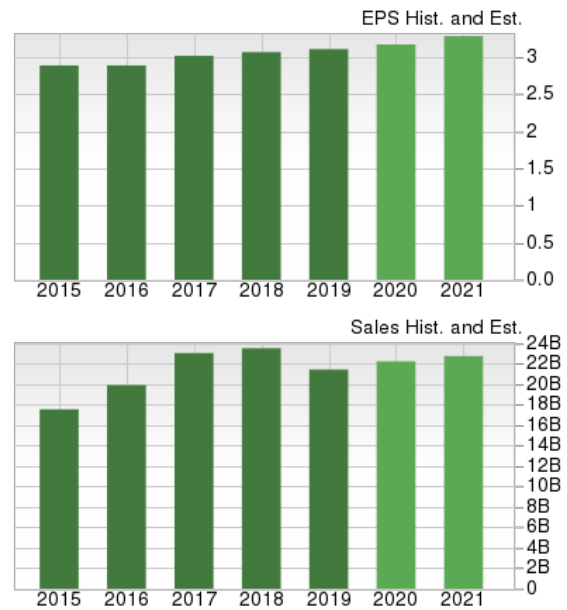
It serves approximately nine million customers and boasts of a generating capacity of 46,000 megawatts, around 200,000 miles of electric transmission and distribution lines, with more than 80,000 miles of natural gas pipelines.

Southern Company's operations include wholesale electricity generation and natural gas services, retail energy services and natural gas storage operations throughout the country. Southern Company's electrical utilities include Alabama Power, Georgia Power, and Mississippi Power. The firm closed the divestiture of its Gulf Power unit for \$5.8 billion in January 2019.

The company owns Southern Power and Southern Company Gas along with other direct and indirect subsidiaries. Southern Power engages in developing, owning and managing power generation assets, including renewable energy projects, as well as selling electricity at market-based rates in the wholesale market.

The electric utility firm engages in the distribution of natural gas through Southern Company Gas (formerly AGL Resources). Southern Company Gas' distribution utilities include Atlanta Gas Light, Chattanooga Gas, Nicor Gas and Virginia Natural Gas. The company completed the sale of Elizabethtown, Elkton and Florida City gas units in 2018. Southern Gas Company operates in four segments: Gas Distribution Operations, Gas Pipeline Investments, Wholesale Gas Services, and Gas Marketing Services.

Southern Company also owns membership interests in SCS, Southern Linc, Southern Holdings, Southern Nuclear, PowerSecure, and other direct and indirect subsidiaries. Notably, Southern Nuclear provides services to the Southern Company's nuclear power plants and is currently managing construction of Vogtle Units 3 and 4, which are co-owned by Georgia Power.



Reasons To Buy:

- ▲ Southern Company is one of the largest electric utility holding companies in the U.S., and the premier energy firm serving the attractive Southeast market. Positioned in a niche industry with high barriers to entry, Southern's less-volatile, recession-proof business model presents a unique opportunity to earn high returns.
 - ▲ Southern Company's seven major regulated utilities serve approximately nine million electric and natural gas customers. Leveraging the demographics of its operating territories (as in healthy population and job growth), the firm aims to further expand its regulated business customer base. As part of that plan, Southern Company has added 30,000 residential electric and 21,000 residential gas customers in 2019, underpinning growth.
 - ▲ Southern Company's divestment deals with NextEra and Global Atlantic Financial Group worth \$6.5 billion and \$1.2 billion respectively, should help the utility to streamline its portfolio, boost utility returns, along with raise cash to repay debts and pay for the new reactors for its Vogtle Project.
 - ▲ Southern Company has a long and consistent dividend paying record. The utility, which announced a 3.3% hike in its quarterly payout in 2019, has paid dividends in each of the last 286 quarters for more than 70 years. As such, Southern's dividend is perceived to be safe and reliable.
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Reasons To Sell:

- ▼ Though Southern Company won unanimous approval for the construction of Vogtle plant, the decision to continue with the project may increase the credit risk of the company. The Vogtle project is being bankrolled with more than \$8 billion in federal loans and loan guarantees. The project, which has been missing milestone dates and suffering from poor productivity rates, is likely to suffer from further ballooning costs. This will hurt the utility's already weak financials. The increasing capital intensity of its operations may also result in reduced returns going forward.
- ▼ Southern Company's much delayed clean coal power plant project Kemper in Mississippi suffered another setback when all coal gasification operations were suspended. The Kemper Project has been facing continuous criticism owing to its poor execution, cost overruns and multiple delays. The plant is already three years behind schedule and is over \$4 billion beyond the stipulated budget. In the past two years or so, the company has announced 10 delays due to project management problems. The project found it difficult to get its two gasifiers to operate consistently.
- ▼ Southern Company's high leverage restricts its financial flexibility. As of Dec 31, the company's long-term debt stood at \$41.8 billion, representing a debt-to-capital ratio of 60.3%. Apart from a rise in immediate finance costs, the high debt level will also require significant cash flows for repayments.
- ▼ With approximately a third of the company's total retail sales coming from industrial customers, a sluggish economy severely affects the fortunes of Southern, as compared to other utilities that are less dependent on the industrial component.

The continued timing and cost overrun issues over two large construction projects – Vogtle and Kemper – may hamper Southern Company's results in the next few quarters.

Last Earnings Report

Southern Company Beats on Q4 Earnings, Sales Miss Mark

Power supplier Southern Company reported fourth-quarter 2019 earnings per share (excluding certain one-time items) of 27 cents, surpassing the Zacks Consensus Estimate of 26 cents and the year-ago profit of 25 cents. The robust performance primarily stemmed from positive effects of rates and pricing changes, as well as lower operating expenses.

Leveraging the demographics of its operating territories (as in healthy population and job growth), the firm has been able to consistently expand its regulated business customer base. As part of that plan, Southern Company has added 41,000 residential electric and 30,000 residential gas customers in 2019, underpinning growth.

The Atlanta-based utility's quarterly revenue – at \$4.9 billion – missed the Zacks Consensus Estimate of \$5 billion and was 7.9% lower than fourth-quarter 2018 sales on account of loss of revenues from asset dispositions.

Vogle Updates

Per Southern Company's latest earnings presentation, it continues to progress toward completing the Units 3 and 4 of the Vogtle nuclear project by the November 2021 and November 2022 regulatory approved in-service dates. The utility also expects no change in the project's total estimated costs.

Overall Sales Breakup

Southern Company's wholesale power sales increased 3.2%. However, this was more than offset by a steep fall in retail electricity demand amid strategic sale of certain assets.

Consequently, there was a downward movement in overall electricity sales and usage. In fact, total electricity sales during the fourth quarter were down 6.8% from the same period last year.

Southern Company's total retail sales decreased 9.8%, with residential and commercial sales going down by 13.9% and 8.3%, respectively. Moreover, industrial sales declined 7.2%.

Expenses Summary

The power supplier's operations and maintenance cost edged up 2.4% to \$1.7 billion, but the utility's total operating expense for the period – at \$4.2 billion – was down 11.2% from the prior-year level. The reduction was primarily on account of lower fuel and purchased power cost, as well as gain on asset sales.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-2.16%
EPS Surprise	3.85%
Quarterly EPS	0.27
Annual EPS (TTM)	3.11

Valuation

Shares of Southern Company increased 45% over the trailing 12-month period. Stocks in the Zacks sub industry and the Zacks Utilities sector are up 25.5% and down 5.6%, respectively, over the past year.

The S&P 500 index is up 21.1% over last year.

The stock is currently trading at 12.25X trailing 12-month EV/EBITDA, which compares to 13.22X for the Zacks sub-industry, 19.12X for the Zacks sector and 12.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.15X and as low as 9.6X, with a 5-year median of 10.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 3.45X F12M sales.

The table below shows summary valuation data for SO

Valuation Multiples - SO					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	12.25	13.22	19.12	12.31
	5-Year High	13.15	13.22	19.12	12.85
	5-Year Low	9.6	7.81	10.68	8.47
	5-Year Median	10.9	9.96	13.08	10.72
P/S F12M	Current	3.26	2.5	3.09	3.51
	5-Year High	3.34	2.5	3.31	3.51
	5-Year Low	1.88	1.54	1.71	2.54
	5-Year Median	2.16	1.87	1.98	3
P/B TTM	Current	2.28	2	4.32	4.61
	5-Year High	2.34	2.01	4.35	4.68
	5-Year Low	1.55	1.32	2.02	2.85
	5-Year Median	1.92	1.55	2.58	3.62

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (150 out of 255)



Top Peers

Ameren Corporation (AEE)	Neutral
American Electric Power Company, Inc. (AEP)	Neutral
Dominion Energy Inc. (D)	Neutral
Duke Energy Corporation (DUK)	Neutral
Consolidated Edison Inc (ED)	Neutral
Exelon Corporation (EXC)	Neutral
FirstEnergy Corporation (FE)	Neutral
NextEra Energy, Inc. (NEE)	Neutral

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	SO Neutral	X Industry	S&P 500	D Neutral	DUK Neutral	NEE Neutral
VGM Score	D	-	-	D	C	D
Market Cap	72.35 B	9.64 B	24.03 B	73.57 B	74.67 B	135.73 B
# of Analysts	6	2	13	5	6	4
Dividend Yield	3.59%	2.71%	1.76%	4.11%	3.69%	1.80%
Value Score	D	-	-	D	D	F
Cash/Price	0.04	0.04	0.04	0.01	0.00	0.00
EV/EBITDA	13.93	11.79	14.08	15.77	13.46	16.35
PEG Ratio	4.84	4.22	2.08	4.37	4.14	3.85
Price/Book (P/B)	2.28	1.99	3.29	2.59	1.62	3.28
Price/Cash Flow (P/CF)	11.51	9.90	13.42	12.06	9.00	15.89
P/E (F1)	21.76	20.77	19.00	20.58	19.78	30.83
Price/Sales (P/S)	3.38	2.39	2.64	4.44	2.98	7.07
Earnings Yield	4.59%	4.68%	5.26%	4.86%	5.06%	3.25%
Debt/Equity	1.37	1.08	0.70	1.20	1.23	0.91
Cash Flow (\$/share)	6.00	4.03	7.03	7.41	11.38	17.47
Growth Score	D	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	2.48%	4.44%	10.84%	4.15%	1.95%	10.18%
Proj. EPS Growth (F1/F0)	2.04%	5.01%	7.09%	2.41%	2.34%	7.59%
Curr. Cash Flow Growth	-5.83%	3.72%	6.72%	23.75%	3.24%	9.21%
Hist. Cash Flow Growth (3-5 yrs)	7.09%	4.91%	8.25%	11.36%	4.29%	10.30%
Current Ratio	0.94	0.82	1.22	0.51	0.62	0.53
Debt/Capital	57.67%	51.52%	42.37%	53.18%	54.06%	47.90%
Net Margin	22.20%	10.08%	11.56%	8.74%	14.89%	19.62%
Return on Equity	10.43%	9.50%	16.80%	12.50%	8.31%	10.30%
Sales/Assets	0.19	0.24	0.55	0.16	0.16	0.17
Proj. Sales Growth (F1/F0)	3.73%	3.08%	3.90%	11.11%	2.76%	5.40%
Momentum Score	A	-	-	C	F	B
Daily Price Chg	-1.17%	0.00%	-0.83%	0.15%	0.99%	0.20%
1 Week Price Chg	0.94%	1.95%	1.65%	3.12%	5.20%	3.33%
4 Week Price Chg	0.04%	2.04%	-0.37%	6.32%	6.61%	6.73%
12 Week Price Chg	10.72%	11.00%	3.74%	7.58%	15.66%	19.10%
52 Week Price Chg	37.38%	13.85%	14.14%	20.23%	14.33%	48.79%
20 Day Average Volume	4,315,130	302,123	1,992,841	2,728,276	3,127,827	2,118,626
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.21%	0.45%	-0.72%
(F1) EPS Est 4 week change	-0.21%	0.00%	-0.02%	1.02%	1.21%	-0.78%
(F1) EPS Est 12 week change	-0.21%	0.00%	-0.17%	-0.05%	1.17%	-0.41%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.48%	0.00%	-2.56%	-4.34%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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