Southern Company (SO)

$52.37 (As of 08/21/20)

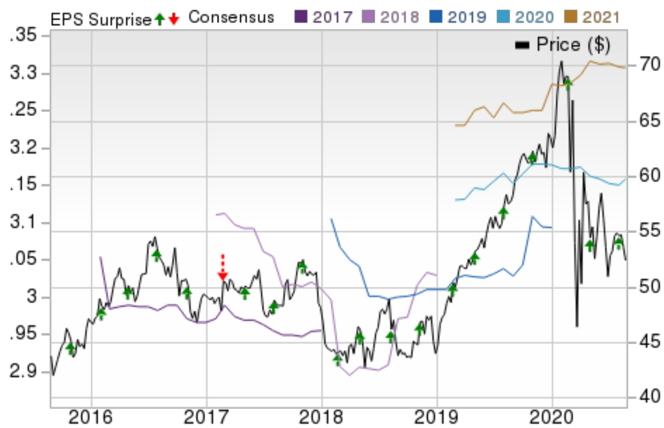
Price Target (6-12 Months): **$56.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/18/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: C	Momentum: D

Summary

Southern Company shares have outperformed the Zacks Utility - Electric Power industry over the past year (-10.2% versus -37.4%). 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-capitalization of 60.1% 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.

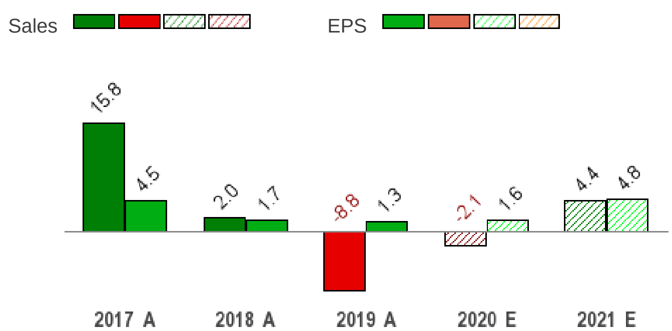
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$71.10 - $41.96**
20 Day Average Volume (sh)	**3,739,023**
Market Cap	**$55.3 B**
YTD Price Change	**-17.8%**
Beta	**0.42**
Dividend / Div Yld	**$2.56 / 4.9%**
Industry	**Utility - Electric Power**
Zacks Industry Rank	**Bottom 22% (197 out of 252)**
Last EPS Surprise	**18.2%**
Last Sales Surprise	**-7.9%**
EPS F1 Est- 4 week change	**0.5%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**16.5**
P/E F1	**16.6**
PEG F1	**4.1**
P/S TTM	**2.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					21,892 E
2020	5,018 A	4,620 A	6,083 E	5,023 E	20,965 E
2019	5,412 A	5,098 A	5,995 A	4,914 A	21,419 A

EPS Estimates

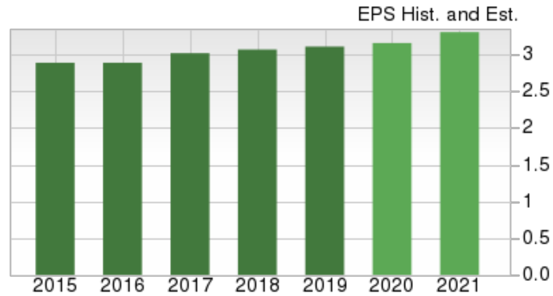
	Q1	Q2	Q3	Q4	Annual*
2021	$0.78 E	$0.70 E	$1.42 E	$0.42 E	$3.31 E
2020	$0.78 A	$0.78 A	$1.25 E	$0.36 E	$3.16 E
2019	$0.70 A	$0.80 A	$1.34 A	$0.27 A	$3.11 A

*Quarterly figures may not add up to annual.

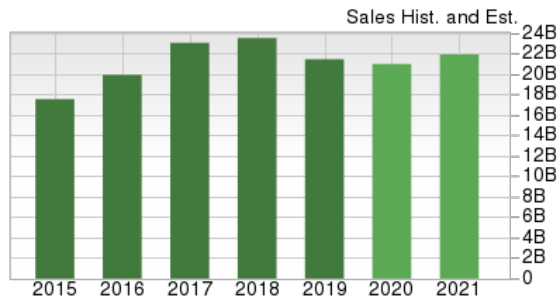
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

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's less-volatile, recession-proof business model presents a unique opportunity to earn high returns.

- 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 added 30,000 residential electric and 21,000 residential gas customers in 2019, underpinning growth.

- The outbreak of novel coronavirus has negatively impacted electric utilities by steeply reducing industrial and commercial electricity demand. However, Southern Company, in its second-quarter presentation, assured investors that the consequence of the ongoing coronavirus epidemic on its retail sales has been lower than expected. Southern Company still sees the pandemic's impact on this year's base revenues of $250-400 million that can be offset through cost containment measures.

- Southern Company has a long and consistent dividend paying record. Recently, the company declared a hike in its dividend by 8 cents per share on an annualized basis to a rate of $2.56 per share. This marks the company's 19th consecutive year dividend hike on its common stock. As such, Southern's dividend is perceived to be safe and reliable.

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. During the most recent quarter, Southern Company said that subsidiary Georgia Power's share of total costs has increased by another $150 million, primarily stemming from coronavirus-induced disruptions.

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.

- 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. The company's long-term debt is currently around $46.7 billion, with only $1.9 billion in cash & cash equivalents. Importantly, the company's debt-to-capitalization as of the end of the second-quarter was 60.1%, deteriorating from 59.8% a quarter ago. Moreover, company's debt-to-capitalization is quite high versus 53% for the sub industry to which it belongs.

- 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.

Last Earnings Report

Southern Company Q2 Earnings Beat Estimates, Sales Miss Mark

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	-7.88%
EPS Surprise	18.18%
Quarterly EPS	0.78
Annual EPS (TTM)	3.17

Southern Company reported second-quarter 2020 earnings per share (excluding certain one-time items) of 78 cents, surpassing the Zacks Consensus Estimate of 66 cents. The robust performance primarily stemmed from cost control as well as positive effects of rates, usage and pricing changes.

However, the Atlanta-based utility's bottom line compared unfavorably with the year-ago adjusted profit of 80 cents, reflecting the impact of mild weather conditions.

Meanwhile, the utility reported revenues of $4.6 billion, which missed the Zacks Consensus Estimate of $5 billion and was 9.4% lower than second-quarter 2019 sales.

The company, which gave an EPS guidance of $1.15 for the third quarter, further updated that the consequence of the ongoing coronavirus epidemic on its retail sales has been lower than expected. Southern Company still sees the pandemic's impact on this year's base revenues of $250-400 million that can be offset through cost containment measures. The utility though cautioned that the economic uncertainties are far from over and will linger through the second half of 2020.

Vogtle 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. However, subsidiary Georgia Power's share of total costs has increased by approximately $150 million, primarily stemming from coronavirus-induced disruptions.

Overall Sales Breakup

Southern Company's wholesale power sales decreased 5.1%. There was also a steep fall in retail electricity demand.

Consequently, there was a downward movement in overall electricity sales and usage. In fact, total electricity sales during the second quarter were down 10.1% from the same period last year.

Southern Company's total retail sales were down 11.7%, with residential and commercial sales going down by 5.6% and 15%, respectively. Moreover, industrial sales declined 14%.

Expenses Summary

The power supplier's operations and maintenance cost was down 8.9% to $1.2 billion, while the utility's total operating expense for the period – at $3.6 billion – fell 5.2% from the prior-year level.

Recent News

Southern Compant Declares Quarterly Dividend

On **Jul 21**, Southern Company's board of directors declared a quarterly cash dividend of 64 cents per share to its common shareholders of record on Aug 17, 2020. The payout will be made on Sep 8.

Valuation

Southern Company shares are down 17.8% in the year-to-date period and 10.2% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Utilities sector are down 14.2% and 37.4% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 9.6% and 30.7%, respectively.

The S&P 500 index is up 5.5% in the year-to-date period and up 18.3% in the past year.

The stock is currently trading at 12.06X trailing 12-month EV/EBITDA, which compares to 11.49X for the Zacks sub-industry, 18.32X for the Zacks sector and 12.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.25X and as low as 9.43X, with a 5-year median of 11.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $56 price target reflects 2.75X 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	12.06	11.49	18.32	12.89
	5-Year High	13.25	13.88	21.07	12.89
	5-Year Low	9.43	7.84	10.59	8.25
	5-Year Median	11.24	10.54	13.97	10.91
P/S F12M	Current	2.57	2.28	2.67	3.71
	5-Year High	3.34	2.46	3.29	3.71
	5-Year Low	1.88	1.55	1.75	2.53
	5-Year Median	2.24	1.91	2.07	3.05
P/B TTM	Current	1.73	2.25	4.17	4.59
	5-Year High	2.34	2.32	4.29	4.59
	5-Year Low	1.43	1.29	2.01	2.83
	5-Year Median	1.9	1.6	2.64	3.75

As of 08/21/2020

Industry Analysis **Zacks Industry Rank:** Bottom 22% (197 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Energias de Portugal **(EDPFY)**	Outperform	2
American Electric Power Company, Inc. **(AEP)**	Neutral	3
Duke Energy Corporation **(DUK)**	Neutral	3
Huaneng Power International, Inc. **(HNP)**	Neutral	3
NextEra Energy, Inc. **(NEE)**	Neutral	3
National Grid Transco, PLC **(NGG)**	Neutral	3
Dominion Energy Inc. **(D)**	Underperform	5
Pacific GasElectric Co. **(PCG)**	Underperform	5

Industry Comparison Industry: Utility - Electric Power

Industry Peers

	SO	X Industry	S&P 500	HNP	NEE	NGG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	D	D
Market Cap	55.31 B	8.43 B	23.62 B	7.44 B	138.28 B	42.36 B
# of Analysts	5	3	14	2	4	3
Dividend Yield	4.89%	3.52%	1.65%	3.52%	1.98%	6.94%
Value Score	C	-	-	A	D	C
Cash/Price	0.03	0.07	0.07	0.33	0.01	0.06
EV/EBITDA	8.65	9.70	13.29	5.18	17.03	12.69
PEG Ratio	4.14	3.44	3.03	0.72	3.88	4.88
Price/Book (P/B)	1.73	1.57	3.11	0.43	3.33	1.70
Price/Cash Flow (P/CF)	8.35	7.51	12.69	2.20	16.16	9.33
P/E (F1)	16.57	17.08	21.51	9.46	30.92	16.49
Price/Sales (P/S)	2.69	1.81	2.43	0.31	7.29	NA
Earnings Yield	6.03%	5.81%	4.46%	10.60%	3.23%	6.06%
Debt/Equity	1.46	1.05	0.76	1.23	1.03	1.36
Cash Flow ($/share)	6.28	4.27	6.93	8.61	17.47	6.16
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	2.11%	5.32%	10.44%	-52.42%	10.42%	NA
Proj. EPS Growth (F1/F0)	1.54%	0.93%	-5.53%	4,912.50%	9.11%	-1.32%
Curr. Cash Flow Growth	-1.44%	6.78%	5.20%	0.68%	9.21%	-3.12%
Hist. Cash Flow Growth (3-5 yrs)	6.18%	6.02%	8.52%	-2.17%	10.30%	-4.81%
Current Ratio	0.97	0.86	1.33	0.46	0.61	0.68
Debt/Capital	59.17%	50.98%	44.50%	55.18%	50.82%	57.71%
Net Margin	15.83%	9.66%	10.13%	1.58%	18.71%	NA
Return on Equity	10.47%	9.28%	14.67%	2.18%	10.55%	NA
Sales/Assets	0.17	0.22	0.51	0.40	0.16	NA
Proj. Sales Growth (F1/F0)	-2.12%	0.00%	-1.54%	1.54%	4.57%	1.20%
Momentum Score	D	-	-	C	D	F
Daily Price Chg	0.23%	0.00%	-0.15%	-3.27%	0.11%	-0.24%
1 Week Price Chg	-2.07%	-0.86%	1.09%	1.58%	-2.53%	-1.44%
4 Week Price Chg	-5.74%	-2.00%	1.64%	12.79%	0.51%	-0.16%
12 Week Price Chg	-7.98%	2.79%	6.72%	26.99%	12.35%	0.60%
52 Week Price Chg	-10.40%	-12.08%	1.00%	-15.70%	27.43%	10.38%
20 Day Average Volume	3,739,023	336,207	1,873,576	18,463	1,520,994	317,955
(F1) EPS Est 1 week change	0.25%	0.00%	0.00%	-3.84%	0.11%	0.00%
(F1) EPS Est 4 week change	0.47%	0.19%	1.79%	-3.84%	0.33%	-5.43%
(F1) EPS Est 12 week change	0.00%	0.00%	3.35%	38.28%	0.93%	-5.77%
(Q1) EPS Est Mthly Chg	-6.27%	-0.68%	0.42%	NA	-1.12%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	C
Momentum Score	D
VGM Score	C

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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