Southern Company (SO)

Updated August 22nd, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$95	**5 Year CAGR Estimate:**	4.2%	**Market Cap:**	$104 B
Fair Value Price:	$75	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	8/18/2025
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	9/8/2025
Dividend Yield:	3.1%	**5 Year Price Target**	$101	**Years Of Dividend Growth:**	24
Dividend Risk Score:	D	**Sector:** Utilities		**Rating:**	Hold

Overview & Current Events

Southern Company is a major energy utility that serves ~9 million customers in the U.S. via its subsidiaries. It has a market capitalization of $104 billion.

Due to cost overruns and its acquisition of AGL Resources for $12 billion in 2016, Southern has almost doubled its net debt in the last nine years. As it refinances its debt on a regular basis, it greatly benefits when interest rates are low, just like during 2008-2021. On the other hand, the Fed has raised interest rates to nearly 23-year highs and thus the interest expense of Southern has increased 61% since the end of 2021.

In late July, Southern reported (7/31/25) results for Q2-2025. Revenue grew 8% over last year's quarter but earnings-per-share decreased -16%, from $1.10 to $0.92, as higher usage and customer growth was offset by milder weather and higher operating costs. Southern has finally started up its Vogtle Units 3 and 4, the first new nuclear facilities built in the U.S. in a generation. This project faced so many setbacks that it became 8 years late, with a cost more than double the initial cost estimate. Southern has missed analysts' estimates in only 3 of the last 34 quarters. Management reiterated its positive guidance for 2025, expecting earnings-per-share of $4.20-$4.30. Notably, Southern grew its bottom line at a double-digit rate (11%) in 2024 for the first time in more than a decade thanks to the start-up of its nuclear plant.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.84	$2.83	$3.02	$3.07	$3.11	$3.25	$3.41	$3.60	$3.65	$4.05	***$4.27***	***$5.71***
DPS	$2.15	$2.22	$2.30	$2.38	$2.46	$2.54	$2.62	$2.70	$2.78	$2.86	***$2.96***	***$3.40***
Shares[1]	911.7	990.4	1007.6	1034.0	1052.0	1058	1062	1090	1092	1102	***1105***	***1170***

Due to its huge capital expenses and its debt pile, the company issues new shares on a regular basis. Southern has increased its share count at a 2.1% average annual rate over the last decade. Management previously stated that it would need to issue only $2.0 billion of shares (2% of the current market cap) in the next five years but it has already issued this number of shares and hence it is likely to exceed its dilution guidance once again.

Southern has grown its earnings-per-share at a 4.0% annual rate in the last decade and at a 5.4% annual rate in the last five years. It has provided guidance for annual earnings-per-share growth of 5%-7% in the long term but management recently stated that it may achieve ~7% growth in the upcoming years. Given the decent business momentum of Southern, the expected contribution from the Vogtle Plant in the upcoming years but also the lackluster performance record of Southern, we expect 6.0% earnings-per-share growth until 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.8	17.8	15.5	14.7	17.9	17.9	18.5	19.7	19.0	19.7	***22.2***	***17.6***
Avg. Yld.	4.8%	4.4%	4.6%	5.3%	4.0%	4.4%	4.2%	3.8%	4.0%	3.6%	***3.1%***	***3.4%***

[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Southern has rallied 41% in 18 months, as the uncertainty over its Vogtle plants has vanished. As a result, the stock is now trading at a price-to-earnings ratio of 22.2, which is higher than the 10-year average price-to-earnings ratio of 17.6. If the utility trades at its average valuation level in five years, it will incur a -4.6% annualized drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	75.7%	78.4%	71.7%	77.5%	79.1%	78.2%	76.8%	75.0%	76.2%	70.6%	***69.3%***	***59.5%***

The competitive advantage of Southern is its state-regulated business, which requires excessive capital expenses for infrastructure and poses high barriers to entry to potential competitors. Southern has stretched its balance sheet in recent years. Its debt/assets ratio has climbed to a near decade-high level while its interest expense currently consumes 38% of its operating income. On the bright side, these metrics have somewhat improved lately thanks to asset sales, whose proceeds have been used for debt reduction.

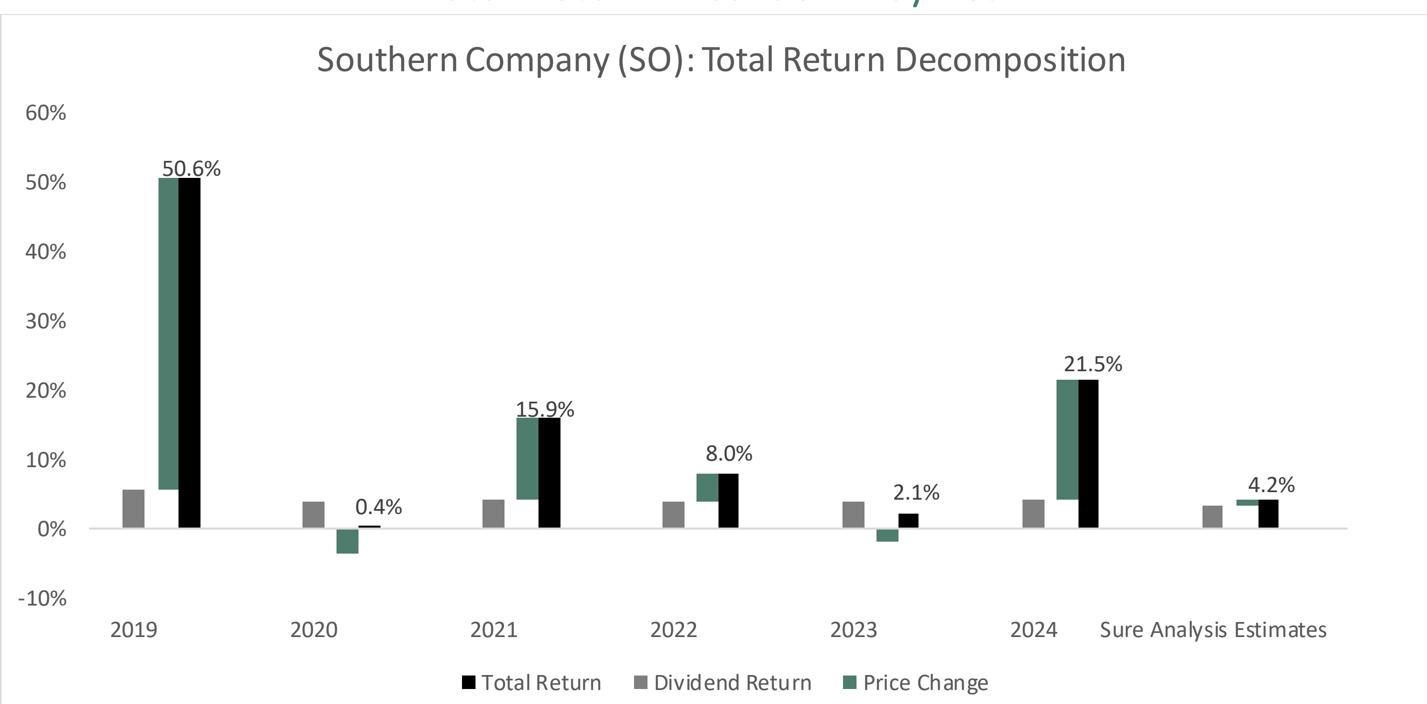
Southern has raised its dividend for 24 consecutive years and has not cut it for 78 consecutive years. It currently offers a 3.1% dividend yield, which is lower than the 3.5% median dividend yield of utilities. Due to the weak balance sheet, dividend growth is likely to remain meager (~3% annually) going forward.

Southern is attractive for its resilience during recessions. In the Great Recession, when most companies saw their earnings collapse, the earnings-per-share of Southern fell just -1.3%. In the downturn caused by the pandemic, Southern grew its earnings thanks to its resilient business model, which involves rate hikes.

Final Thoughts & Recommendation

The stock of Southern is a safe haven amid high inflation thanks to its reliable rate hikes year after year. However, the stock has rallied 41% in the last 18 months. We thus expect Southern to offer a 4.2% average annual return over the next five years, as 6.0% earnings growth and its 3.1% dividend may be partly offset by a -4.6% valuation headwind. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	17,489	19,896	23,031	23,495	21,419	20,375	23,113	29,279	25,253	26,724
Gross Profit	7,678	8,530	9,915	9,616	9,603	9,897	10,061	10,821	11,708	13,342
Gross Margin	43.9%	42.9%	43.1%	40.9%	44.8%	48.6%	43.5%	37.0%	46.4%	49.9%
D&A Exp.	2395	2923	3457	3549	3331	3,905	3,973	4,064	4,986	5,266
Operating Profit	4282	4487	2293	4110	5335	4,820	3,514	5,564	5,826	7,068
Op. Margin	24.5%	22.6%	10.0%	17.5%	24.9%	23.7%	15.2%	19.0%	23.1%	26.4%
Net Profit	2421	2493	880	2242	4754	3,134	2,408	3,535	3,976	4,401
Net Margin	13.8%	12.5%	3.8%	9.5%	22.2%	15.4%	10.4%	12.1%	15.7%	16.5%
Free Cash Flow	600	-2416	-1029	-1056	-1774	-745	-1,071	-1,621	-1,542	833
Income Tax	1194	951	142	449	1798	393	267	795	496	969

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets ($B)	78.3	109.7	111.0	116.9	118.7	122.9	127.5	134.9	139.3	145.2
Cash & Equivalents	1404	1975	2130	1396	1975	1,065	1,798	1,917	748	1,070
Acc. Receivable	1058	2206	2413	2527	2042	2,269	1,806	2,138	2,030	2,228
Inventories	1929	2782	2627	2394	2388	2,488	2,355	2,677	3,352	3,369
Goodwill & Int.	319	7221	7141	5928	5816	5,767	5,725	5,567	5,529	5,493
Total Liabilities	56218	82967	85153	87584	86650	90,410	94,968	100,359	104,106	108,506
Accounts Payable	1905	2825	3076	3436	2557	2,806	2,169	3,525	2,898	3,701
Long-Term Debt	28706	47425	50762	46825	46842	49,189	53,717	57,550	62,000	64,824
Total Equity	20592	24758	24167	24723	27505	27,972	27,873	30,408	31,444	33,208
LTD/E Ratio	1.39	1.91	2.07	1.87	1.69	1.74	1.91	1.90	1.97	1.95

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.3%	2.7%	0.8%	2.0%	4.0%	2.6%	1.9%	2.7%	2.9%	3.1%
Return on Equity	11.9%	11.0%	3.6%	9.2%	18.2%	11.3%	8.6%	12.1%	11.4%	12.2%
ROIC	5.0%	4.0%	1.2%	2.9%	6.1%	3.9%	2.9%	4.0%	4.2%	4.4%
Shares Out.	911.7	990.4	1007.6	1034.0	1052.0	1058	1062	1081	1098	1102
Revenue/Share	19.13	20.77	22.85	22.92	20.32	19.13	21.64	27.09	23.00	24.25
FCF/Share	0.66	-2.52	-1.02	-1.03	-1.68	-0.70	-1.00	-1.50	-1.40	0.76

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.