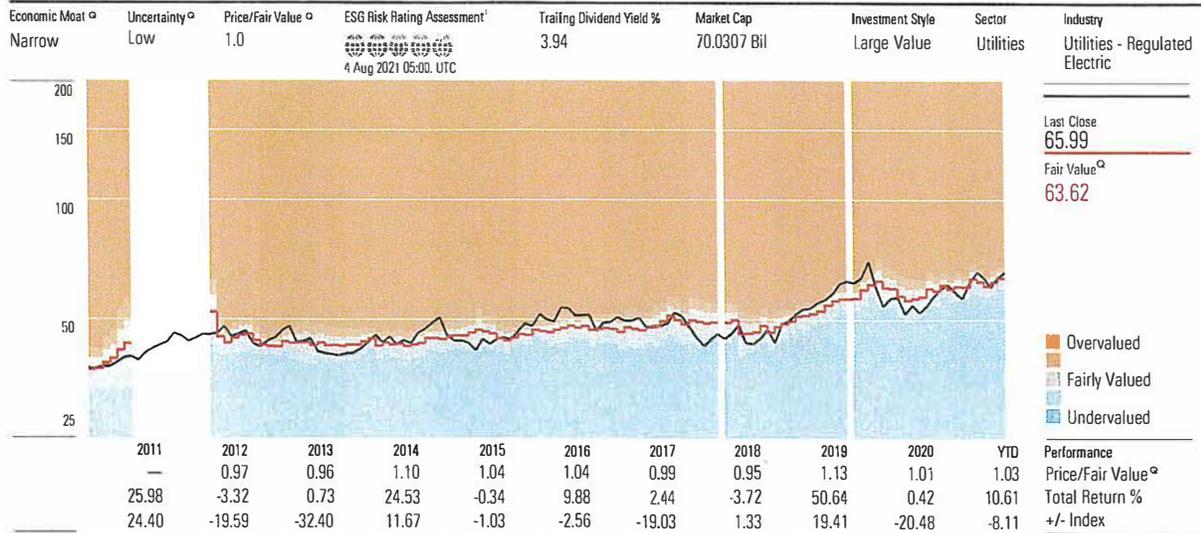


Southern Co SO ★★★ Q 27 Aug 2021, 22:39 UTC



Total Return % as of 27 Aug 2021. Last Close as of 27 Aug 2021. Fair Value as of 27 Aug 2021, 22:39 UTC. Index: Morningstar US Market TR USD.

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Valuation as of 27 Aug 2021



Last Close
65.99
Fair Value
63.62
Uncertainty
Low

SO is trading within a range we consider fairly valued.

Economic Moat
Narrow
Financial Health
Moderate
1-Star Price > 67.74
5-Star Price < 59.75

Financials as of 27 Aug 2021 (Fiscal Year End 31 Dec 2019)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	Fiscal
Revenue (Bil)	18	17	17	18	17	20	23	23	21	20	11	
Operating Income (Mil)	4,231	4,463	3,255	3,642	4,282	4,487	2,293	4,110	5,335	4,820	2,252	
Operating Margin (%)	23.96	26.99	19.05	19.72	24.48	22.55	9.96	17.49	24.91	23.66	20.27	
Net Income (Mil)	2,203	2,350	1,644	1,963	2,367	2,448	842	2,226	4,739	3,119	1,508	
Diluted Earnings/Share	2.55	2.67	1.87	2.18	2.59	2.55	0.84	2.17	4.50	2.93	1.41	
Operating Cash Flow (Mil)	5,903	4,898	6,097	5,815	6,274	4,894	6,394	6,945	5,781	6,696	2,904	
Capital Spending (Mil)	-4,525	-4,809	-5,463	-5,246	-5,674	-7,310	-7,423	-8,001	-7,555	-7,441	-3,384	
Free Cash Flow (Mil)	1,378	89	634	569	600	-2,416	-1,029	-1,056	-1,774	-745	-480	
Avg Shares Outstand (Mil)	864	879	881	901	914	958	1,008	1,025	1,054	1,065	1,066	
Dividend Per Share	1.87	1.94	2.01	2.08	2.15	2.22	2.30	2.38	2.46	2.54	2.64	

Valuation as of 27 Aug 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Current	Calendar
Price/Fair Value	—	0.97	0.96	1.10	1.04	1.04	0.99	0.95	1.13	1.01	1.04	
Price/Sales	2.25	2.25	2.14	2.39	2.38	2.52	2.14	1.88	3.05	3.24	3.22	
Price/Earnings	19.10	15.81	22.34	20.99	17.93	18.56	92.48	18.30	14.64	20.61	22.37	
Price/Cash Flow	7.88	7.59	6.86	6.90	6.87	8.47	8.24	6.66	10.69	10.68	10.41	
Price/Book	2.27	2.03	1.94	2.25	2.06	1.98	2.01	1.83	2.44	2.29	2.48	

Operating Performance as of 27 Aug 2021 (Fiscal Year End 31 Dec 2019)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Q3	Fiscal (%)
Return on Assets	3.85	3.84	2.57	2.9	3.19	2.6	0.76	1.95	4.02	2.58	0.3	
Return on Equity	13.04	13.1	8.81	10.08	11.75	10.8	3.44	9.11	18.15	11.24	1.31	
Rtn on Invested Capital	7.29	7.24	5.26	5.76	6.22	5.6	3.14	5.14	8.12	6.1	0.78	

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Business Description

Southern Co. is one of the largest utilities in the U.S. The company distributes electricity and natural gas to approximately 9 million customers in nine states. It owns 50 gigawatts of generating capacity, primarily for serving regulated customers in Georgia, Alabama, and Mississippi. Wholly owned unregulated Southern Power Co. owns 12

gigawatts of mostly renewable energy capacity and sells the electricity primarily under long-term power sales agreements. The solar and wind farms are located in Southern's regulated jurisdictions but also in Texas, California, and other states.

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Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings").

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- i. **Quantitative Fair Value Estimate:** Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to <http://global.morningstar.com/equitydisclosures> for information about Fair Value Estimate Morningstar's equity analysts assign to companies.
- ii. **Quantitative Economic Moat:** Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.
 - Narrow – assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
 - Wide – assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
 - None – assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

- iii. **Quantitative Star Rating:** Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, Quantitative Uncertainty Rating, and momentum. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.
 - One-Star** – the stock is overvalued with a reasonable margin of safety.
 $\text{Log (Quant FVE/Price)} < -1 * \text{Quantitative Uncertainty}$
*Micro-Caps: Log (Quant FVE/Price) < -1.5*Quantitative Uncertainty*
 - Two-Star** – the stock is somewhat overvalued.
 $\text{Log (Quant FVE/Price) between } (-1 * \text{Quantitative Uncertainty, } -0.5 * \text{Quantitative Uncertainty})$
*Micro-Caps: Log (Quant FVE/Price) between } (-1.5 * \text{Quantitative Uncertainty, } -0.75 * \text{Quantitative Uncertainty})*
 - Three-Star** – the stock is approximately fairly valued.
 $\text{Log (Quant FVE/Price) between } (-0.5 * \text{Quantitative Uncertainty, } 0.5 * \text{Quantitative Uncertainty})$
*Micro-Caps: Log (Quant FVE/Price) between } (-0.75 * \text{Quantitative Uncertainty, } 0.75 * \text{Quantitative Uncertainty})*
 - Four-Star** – the stock is somewhat undervalued.
 $\text{Log (Quant FVE/Price) between } (0.5 * \text{Quantitative Uncertainty, } 1 * \text{Quantitative Uncertainty})$

Uncertainty)

*Micro-Caps: Log (Quant FVE/Price) between } (0.75 * \text{Quantitative Uncertainty, } 1.5 * \text{Quantitative Uncertainty})*

Five-Star – the stock is undervalued with a reasonable margin of safety.

$\text{Log (Quant FVE/Price)} > 1 * \text{Quantitative Uncertainty}$

*Micro-Caps: Log (Quant FVE/Price) > 1.5 * \text{Quantitative Uncertainty}*

After the initial calculation for the star rating, there is a final filtering step based on the momentum of the company. We rank the companies based on their 12-1 month momentum, then restrict those below the 30th percentile to a maximum of 3 stars.

- iv. **Quantitative Uncertainty:** Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.
 - Low – the interquartile range for possible fair values is less than 10%
 - Medium – the interquartile range for possible fair values is less than 15% but greater than 10%
 - High – the interquartile range for possible fair values is less than 35% but greater than 15%
 - Very High – the interquartile range for possible fair values is less than 80% but greater than 35%
 - Extreme – the interquartile range for possible fair values is greater than 80%
- v. **Quantitative Financial Health:** Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.
 - Weak – assigned when Quantitative Financial Health < 0.2
 - Moderate – assigned when Quantitative Financial Health is between 0.2 and 0.7
 - Strong – assigned when Quantitative Financial Health > 0.7

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- i. **Last Close** – Price of the stock as of the close of the market of the last trading day before date of the report.
- ii. **Quantitative Valuation** – Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.
 - Undervalued – Last Price is below Morningstar's quantitative fair value estimate.
 - Fairly Valued – Last Price is in line with Morningstar's quantitative fair value estimate.
 - Overvalued – Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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