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Dow Jones Industrials 11,744 (intra-day)

What If Southern Company (\$35 – Hold)/Progress Energy (\$46 – Hold) Merge? (SO/PGN)

(A Look at Our Pro Forma Earnings-Dividend-Capitalization & Market Profile)

Thursday evening, September 29, 2006, the press speculated that Southern Company was in advanced talks to acquire Progress Energy. Usually by the time the press speculates, the deal's close to becoming fact.

Progress Energy was formed in 2000 with the purchase of Florida Progress Corporation by Carolina Power & Light. Florida Progress had been for sale and almost bought by National Grid, but negotiations failed. Next was Carolina Power & Light who ended up buying Florida Progress for what can only be described as a high price - \$5.4 billion, \$3.4 billion cash and \$1.9 billion common stock. The transaction raised stand-alone Carolina P&L debt as a percentage of total capitalization from 49.7% to a consolidated 64.6%, while common equity declined from 49.7% to 34.9%. Stated book value increased from \$21.35 a share to \$26.30 a share, but book value net of goodwill dropped 56%, from \$19.54 a share to \$8.59 a share. Earnings quality also suffered with the acquisition of low-quality, tax-generated earnings via section 29 credits. Since 2000, management has worked on improving balance sheet quality.

Obviously we have no inside knowledge of any merger discussions (not that we wouldn't welcome being involved), so we're free to speculate. Southern Co. is a conservatively run electric utility holding company. Its largest subsidiaries, Georgia Power, Alabama Power, Mississippi Power and Gulf Power, are fully integrated traditional electric utilities regulated by their respective state commissions, while its wholesale subsidiary, Southern Power is subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). Southern Co., as a major presence in the South/Southeast, has to have been aware of any and all consolidation discussions, if not an active participant. Over the years, we've heard speculation of a combination of Southern and FPL Group, as well as others including Florida Progress and Carolina Power & Light. Why would Southern Co., who we assume passed at least twice on the opportunity to buy Florida Progress, suddenly opt to buy the combined Florida Progress and Carolina Power & Light? Our guess is that Progress Energy is for sale with Southern the most likely buyer. The biggest problem is how to structure a deal that conforms to the conservative philosophy of management.

Our estimates as detailed in the following table assume the deal will be all stock with each Progress Energy share exchanged for 1.38 shares of Southern Co. The purchase price would represent a 10% premium over \$44.00 a share, the price level pre the press announcement. Southern raises its dividend from \$1.55 a share to \$1.75 a share keeping the income to Progress Energy shareholders at the \$2.42 a share level.

Earnings per share, based on 2007 consensus estimates, and before projected savings from consolidation, would decline 3% from \$2.18 a share to \$2.11 a share. Southern Company's book value because of significant goodwill (\$7.38 a share - \$8,056 million - compared to zero currently) increases from \$14.62 to \$21.15 a share.

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See page 3 of report for Analyst's Certification, pages 3-4 for Important Disclosures and pages 4-5 for Other Disclosures and Disclaimers

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Southern Co. & Progress Energy Combination

	So	PGN 6/30/06	Consolidated
Exchange	\$-mil	\$-mil	\$-mil
Purchase Price \$millions		12,245	
Market Price	35.00	48.40	
Southern Shares Exchange		1.38	
Shares-millions	742	253	
Southern Shares Issued		350	1,092
Market Value \$-Billions	26	12	38
Dividend	1.55	2.42	1.75
Debt			
Long-term debt, affiliate	1,893	270	2,163
Long-term debt, net	11,297	9,822	21,119
Current portion of long-term debt	993	460	1,453
Short-term obligations	1,852	0	1,852
Total Debt	16,035	10,552	26,587
Preferred	596	93	689
Common	10,846	7,844	23,091
Total Capitalization	27,477	18,489	45,966
Capital Structure			
Total Debt	58.4	57.1	57.8
Preferred	2.2	0.5	1.5
Common	39.5	42.4	50.2
Total	100.0	100.0	109.6
Book Value	14.62	31.00	21.15
Market Price	35.00	46	35.00
Price to Book	239	148	165
Goodwill	0	3,655	8,056
Goodwill Per Share	0	14.45	7.38
Goodwill % Book Value	0	47	35
Book Net of Goodwill	14.62	16.56	13.77
Consensus EPS			
2006	2.09	2.53	2.01
2007	2.18	2.70	2.11
Earnings Millions			
2006	1,551	640	2,191
2007	1,618	683	2,301
Consensus P/E			
2006	16.7	18.8	17.4
2007	16.1	17.6	16.6
Return on Book Value			
2006	14.3	8.2	9.5
2007	14.9	8.7	10.0
Return on Book, Net of Goodwill			
2006	16.7	15.3	14.6
2007	16.1	16.3	15.3
Dividend			
Annual Rate	1.55	2.42	1.75
Yield	4.4	5.1	5.0
Payout 2007 %	71	90	83
Dividend Return on Book	10.6	7.8	8.3

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other reports issued by me are: Dominion Resources (9/26/06 D \$77-Hold); DTE Energy (8/31/06 DTE \$42-Hold); Exelon Corporation (8/30/06 EXC \$60-Hold); Exelon Corporation (8/2/06 EXC \$59-Hold); WPS Resources (7/25/06 WPS \$52-Hold); SCANA Corporation (6/15/06 SCG \$38-Buy); Exelon Corporation (4/27/06 EXC \$58-Hold); Exelon Corporation (3/23/06 EXC \$55-Hold); Exelon Corporation (3/15/06 EXC \$56-Hold); TXU Corporation (2/28/06 TXU \$52-Hold); Constellation Energy (2/24/06 CEG \$58-Hold); Consolidated Edison/KeySpan (2/17/06 – ED-\$45-Hold, KSE-\$36-Not Rated); Exelon Corporation (1/26/06 EXC \$58-Hold); FPL Group/Constellation Energy (1/9/2006 – FPL \$42-Not Rated, CEG \$58-Hold); TXU Corporation (11/18/05 \$50-Hold); Exelon Corporation (10/4/05 \$53-Sell); Constellation Energy (9/13/05 \$60-Market Perform); Exelon Corporation (8/4/05 \$54-Sell); Pinnacle West Capital (7/14/05 \$45-Market Perform); TXU Corporation (6/8/05 \$81-Market Perform); Duke/CINergy (5/17/05 – DUK-\$28, CIN-\$45.50-Both Rated Market Perform); Constellation Energy (5/12/05 \$54-Market Perform); Consolidated Edison (4/18/05 \$42-Hold); CINergy (3/28/05 \$40-Market Perform); Exelon Corporation (3/8/05 \$47-Sell); CINergy (2/23/05 \$41-not rated); PPL Corporation (2/8/05 \$56-Market Perform Upgrade); TXU Corporation (2/2/05 \$72.62-Market Perform); Accounting for Mergers (1/20/05 Exelon \$43-sell, PEG \$51-not rated); TXU Corp (12/6/04 \$61-Market Perform); Constellation Energy (10/22/04 \$40-Market perform); Exelon Corp. (9/9/04 \$38-Sell); Progress Energy (7/14/04 \$42-Under Perform); Southern Co (7/12/04 \$29-Market Perform); Consolidated Edison (6/24/04 \$40-Hold); Scana Corporation (4/7/04 \$36-Buy); Dominion Resources (3/12/04 \$63-Market Perform Upgrade); Duke Energy (1/8/04 \$21-Under Perform); Dominion Resources (1/23/04 \$62-Under Perform); CMS Energy (11/19/03 \$7-Market Perform); Exelon Corporation (10/15/03 \$65-Sell); TECO Energy (6/24/03 \$13-Hold); Northeast Utilities (5/30/03 \$17-Hold); Southern Co (4/9/03 \$28-Hold); CMS Energy (4/3/03 \$5-Sell); Consolidated Edison (3/24/03 \$40-Hold); PPL Corporation (3/12/03 \$34-Under Perform); Exelon Corp (2/26/03 \$49-Under Perform); TXU Corp (2/6/03 \$17, 1/9/03 \$20 both Under Perform); Duke Energy (1/29/03 \$17-Under Perform, 1/17/03 \$18-Under Perform); Dominion Resources (12/27/02 \$54-Under Perform).

Important Disclosures

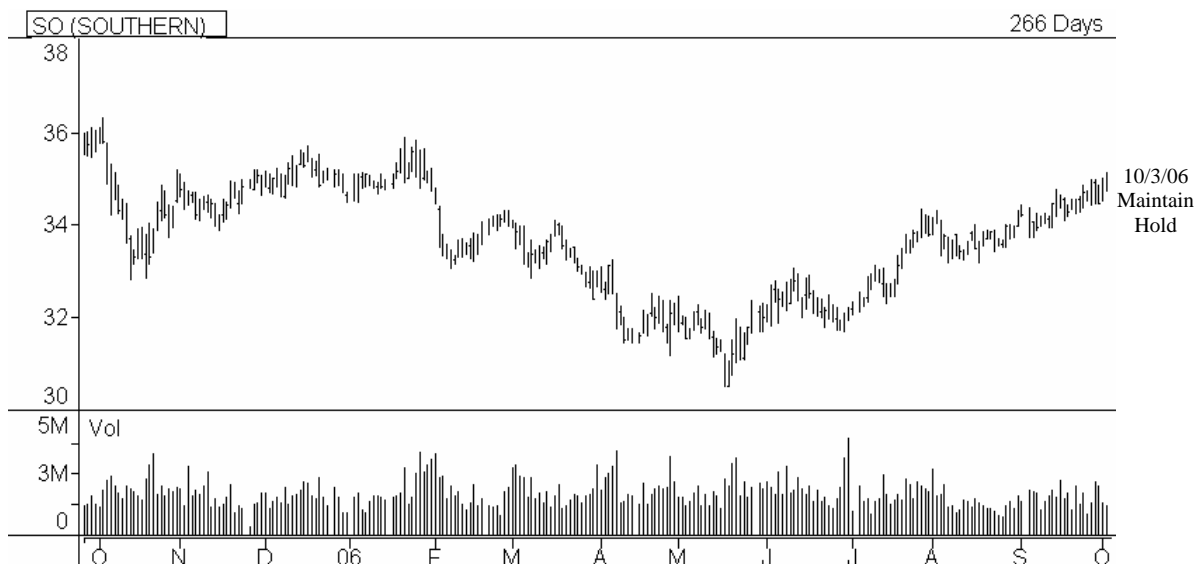
Guide to Investment Ratings:

Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

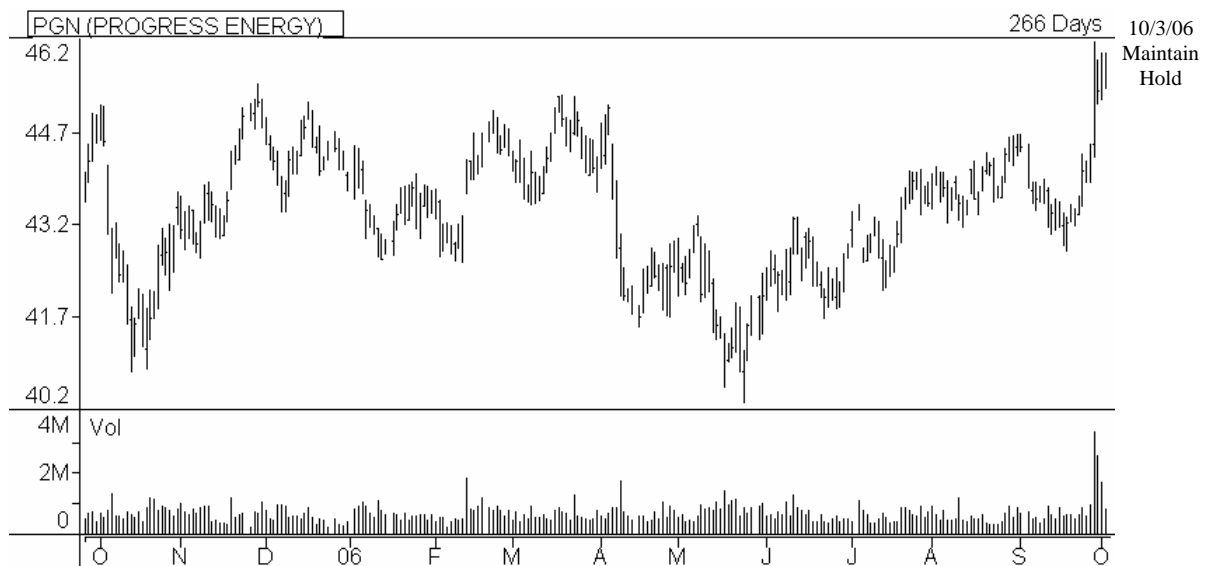
Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Range of Formal Recommendations 17 total 1-buy-15-holds-1 sell



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