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Rating: Raised to Buy

**The Southern Company
(NYSE-SO)**

	6/16			Price 6/16	YTD % Chg.	12 Mos. % Chg.	
Price	30						
52-week range	40-26						
Earnings Per Share							
2007 Adjusted *	2.21	13.6	P/E	Southern Co.	30	(19)	(15)
2008 Adjusted *	2.37	12.7		Phila.22 Elec. Index	370	(7)	(32)
2009 Estimate	2.33	12.9		Dow Industrials	8,592	(2)	(30)
2010 Estimate	2.47	12.2		Shares-millions	743		
2011 Estimate	2.61	11.5		Market Value-\$Bil.	22		
Dividend	1.75	5.8	Yield				
Book Value 12/31/08	17.13	176	P/B	Analyst Coverage	17	29	% Buys

Source: Bloomberg Financial Service. *GAAP earnings were \$2.25 a share in 2008 and \$2.28 a share in 2007.

Overview

Southern Co. is a large company with a market capitalization of \$22 billion and a retail service territory covering 120,000 square miles. The regulatory climate is fair and includes mechanisms that enable the subsidiaries to earn at allowed levels as long as sales projections are reliable. Stock performance has been another matter. After outperforming the markets in late 2008, the price has declined 19% year to date, more than double the 7% drop registered by the Philadelphia 22 electric stock index. We can't identify any one item accounting for the drop, but believe Climate Change legislation and a first-quarter earnings decline of 10% were contributors. It appears Congress will probably pass less onerous Climate legislation in 2010 and we expect earnings to bottom at the \$2.30-\$2.35 a share level in 2009 (guidance \$2.30-\$2.45 a share) and rise steadily in the 5%-6% range annually longer term. The total return, based on a 5.8% yield and dividend growth of 4%-5% works out to 10%-11% annually on what represents relatively low risk. We are raising our rating from Hold to Buy, with a 12-month price objective of \$35 a share.

Earnings and Dividends

Southern Co. reported adjusted earnings of \$2.37 a share versus \$2.21 a share in 2007. Fully diluted GAAP earnings were \$2.25 a share in 2008 compared to \$2.28 a share, taking into account writedowns of tax disputes in leveraged lease transactions (\$0.11 a share in 2008) and excluding synthetic fuel credit earnings (\$0.08 a share) in 2007. Kilowatt hour sales declined 2% in 2008, reflecting a weakening economy and below-average summer temperatures. Weather, according to management, reduced profits by \$0.09 a share in 2008, while higher non-cash Allowance for Funds Used during Construction (AFUDC) entries increased earnings by \$0.05 a share to \$0.19 a share (\$233 million) compared to \$0.14 a share (\$170 million) in 2007.

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See page 8 of report for Analyst's Certification, pages 8-9 for Important Disclosures and page 9 for Other Disclosures and Disclaimers

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Rate increases played a role in 2008 earnings. The Georgia Public Service Commission approved increased rates totaling \$100 million (\$0.08 a share) to cover investments in generation, transmission and distribution, as well as true-up increases in operating expenses. The commission also granted \$222 million (\$0.19 a share) for a three-year phase in to cover investments in mandated environmental projects. The Alabama Public Service Commission increased rates \$147 million (\$0.12 a share) effective January 2008 under its RSE (Rate Stabilization and Equalization Plan).

Guidance for 2009 is \$2.30-\$2.45 a share with Street consensus at the midpoint of \$2.39 a share. The wide range takes into account: 1) the poor first quarter of \$0.42 a share, 10% below 2008 on a 6.6% drop in retail sales; 2) level O&M expenses; 3) normal weather; 4) a rebound in kilowatt hour sales beginning in the second half; and 5) a \$168 million (\$0.14 a share) effective increase at Alabama Power Co. To date, temperatures haven't cooperated, although the third quarter is key as it typically accounts for 45% of annual results. Since calling economic turnarounds is tenuous at best, our earnings estimate falls at the lower end of guidance at \$2.30-\$2.35 a share. Earnings exclude a \$0.26 a share charge for the settlement of the Mirant law suit.

Management's goal is to increase earnings per share 6% annually "over time," the operative phrase being over time. The company's regulatory framework enables the subsidiaries to earn at allowed levels assuming sales estimates prove accurate. On a GAAP basis, Southern Co.'s consolidated earned return on average common equity was 14.0% in 2007 and 13.6% in 2008. Our earnings estimate of \$2.33 a share in 2009 incorporates a return on common of 13.2%. If the 13.2% return were maintained in 2010 and 2011, helped by kilowatt hour sales growth of 1.5%-2.0% annually, earnings would rise to \$2.47 a share (5.8%) and \$2.61 a share (5.7%), respectively. A return to the 2008 13.6% return by 2011 would produce earnings of \$2.70-\$2.75 a share.

Southern Co.'s \$1.75 a share indicated annual dividend represents a 75% payout of our \$2.33 a share estimate and provides a 5.8% yield. The Board's practice has been to raise the dividend about 4% annually at the April declaration. Longer term, the goal is to maintain a payout in the 65%-70% range. Our 2011 earnings estimate of \$2.61 a share reduces the payout percentage to 70%.

Climate Legislation

Climate Change (Global Warming) legislation seems inevitable, perhaps even in 2009, but more likely in 2010. CRA International (Charles River Associates) has estimated that electric rates for coal-burning companies could rise 40%-60%, and the national GDP could be reduced by 1%. Investors may maintain that higher costs would be passed through via fuel and purchased power clauses and by environmental riders. True, but the reality is higher rates make for irate customers, angry regulators and, most likely, lower allowed returns. Politicians voting for carbon legislation within the most affected areas -- Democrats or Republicans -- could have shortened careers, but there's always the fear that politicians will find revenue derived from a carbon tax or cap and trade too tempting not to fund unrelated projects. The mood in Congress seems to support compromise. Without relief to offset costs to consumers, we doubt legislation could pass. Southern Co.'s kilowatt hour production in 2008 was derived 64% from high CO₂ producing coal.

Current proposals call for lowering Carbon Dioxide (CO₂) emissions anywhere from 3%-14% below 2005/6 levels by 2020 and by 80%-83% by 2050. The electric industry represented by the Edison Electric Institute endorses the goal of an 80% reduction by 2050 but with the caveat that savings stemming from emission credits be returned to the users via the local distribution companies (LDCs). The EEI plan allocates a greater share of emission credits to CO₂ generators, thus softening pressures on rates.

Legislature proposals call for a 35% emission credits allocation to electric companies. The EEI proposal spreads the credits among LDCs (30%), merchant generators (3.5%) and companies with purchase power clauses tied to coal generation (1.5%). Tom Farrell, Chief Executive Officer of **Dominion Resources (D-\$33-Rated Hold)**, testifying before a House Energy and Commerce panel on June 9, 2009, recommended an LDC allocation on a 50/50 formula: 1) 50% based on each LDC share of CO₂ emissions, and 2) 50% on LDC share of electric retail sales.

Status of Climate legislation is fluid. Undoubtedly more will follow.

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Construction and Financing

Capital outlays for the three years ending 2011 are budgeted at \$16.8 billion, 54% higher than the previous comparable period. Major projects include 2,400 megawatts of combined cycle capacity plus initial outlays (\$1.9 billion) for units #3 and #4 at the Vogtle nuclear plant.

Table 2, on page 6, presents a forecast of Sources and Uses of Funds covering the 2009-2011 periods. We estimate that internal cash generation will provide 46%, or \$7.5 billion, of the needed capital (Column 6). The remaining 54%, or \$8.8 billion, will consist of debt of \$6.0 billion, preferred and preference shares of \$0.1 billion, asset sales of \$0.2 billion, and common equity of \$2.4 billion. Capitalization of \$33.0 billion at year-end 2008 should rise to \$36.7 billion (11%) in 2009, to \$39.7 billion (8%) in 2010, and to \$43.3 billion in 2011.

Vogtle #3 and #4

Southern Co. subsidiary Georgia Power Co. partnered with Oglethorpe Power, the Municipal Electric Authority of Georgia and the city of Dalton and applied to the Nuclear Regulatory Commission (NRC) for a combined construction and operating license for a two-unit expansion (#3 & #4) of 1,100 megawatts each at the Vogtle nuclear plant. Georgia Power's all-in cost based on 45.7% ownership (1,005 megawatts), assuming no construction work in progress (CWIP), is estimated at \$6.4 billion (\$6,368 per megawatt). Vogtle is on the short list for a construction and operating license (COL) as well as US government guarantees. The project will proceed with or without guarantees, something we doubt applies to non-regulated generators.

Georgia Power's \$6.4 billion commitment represents 43% of its 2008 year-end capitalization of \$14.7 billion and 93% of common equity of \$6.9 billion. (Vogtle #3 & #4 commitments as a percentage of Southern Co. consolidated represent 19% of 2008 year-end capitalization of \$33 billion and 48% of common equity of \$13 billion.) Integrated utilities, similar to Georgia Power and **South Carolina Electric and Gas (SCG-\$31-Rated Buy)**, have huge advantages over non-regulated generators, including a customer for its output once completed. Another benefit is the ability to include construction work in progress (CWIP) in rate base. The Georgia Legislature passed, and Governor Perdue signed off on, Senate Bill 31 providing for CWIP and the PSC certified need for the capacity. Inclusion of CWIP is expected to cut Georgia Power Co. exposure by 25% from \$6.4 billion to \$4.8 billion.

Management expects to receive an early site permit from the NRC this fall and a combined construction and operating license in mid-2011. The units could be placed in service in 2016 and 2017, respectively.

Regulation

Southern Co.'s retail service area covers 120,000 square miles containing a population of 13 million. Its two largest subsidiaries, Georgia Power Co. and Alabama Power Co., service areas that cover most of each state. Gulf Power Co.'s service territory is northwestern Florida, while Mississippi Power Co. is located in southeastern Mississippi. Southern Power is a wholesaler whose customers include affiliates, other investor-owned companies, independent power producers, municipalities, and coops.

Consolidated profits were \$1,742 million in 2008. Earnings before intercompany eliminations were derived 52% (\$903 million) from Georgia Power, 35% (\$616 million) from Alabama Power, 6% (\$98 million) from Gulf Power; and 5% (\$86 million) from Mississippi Power. Southern Power contributed 8% (\$144 million).

The regulatory framework, particularly in Georgia and Alabama, has enabled Southern Co. subsidiaries to earn close to, or at the allowed rates levels.

The Georgia PSC approved a three-year retail rate plan covering the 2008/10 period. Georgia Power is required to file a new case by July 1, 2010 at which time the PSC will review allowed rates of return and the appropriateness of a three-year cycle. We expect existing procedures, including the three-year cycle, to be extended. Georgia Power Co.'s allowed return on equity range is 10.25%-12.25%. Earnings above 12.25% are applied two-thirds to rate refunds and one-third to an environmental compliance cost recovery (ECCR) tariff. In January 2008, Georgia Power rates increased \$100 million (1.4%) to cover increases in rate base

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and operating expenses. The commission also approved a \$222 million increase under the ECCR tariff that will be phased in over the next three years to cover charges associated with mandated environmental projects. Georgia Power Co.'s return on average common equity (jurisdictional and non-jurisdictional) was 14.0% in 2008.

Alabama Power Co. operates under a Rate Stabilization and Equalization Plan (RSE) that includes forward-looking expenses. Rate increases for a two-year period are limited to 4% annually with a one-year cap of 5%. Rates remain unchanged if the return on common is within a 13.0%-14.5% band. Earnings above 14.5% are refunded to customers (there's no provision for rate relief should the return fall below 13.0%). Effective January 2009, Alabama Power rates rose by an estimated \$168 million (3%). The increase reflects a change in rate structure that raises the capacity portion and reduces the usage components, making revenues less subject to sales volumes. Rate changes under the RSE were deferred until 2010. In the interim, shortfalls/excesses are accounted for as deferrals on the balance sheet. Alabama Power Co.'s return on average common in 2008 (jurisdictional and non-jurisdictional) was 13.8%.

Gulf Power Co. earned \$98 million in 2008, accounted for 6% of consolidated profits, and earned a return on average common equity of 12.7%. Mississippi Power Co. earned \$86 million, accounted for 5% of consolidated profits, and earned a 13.8% return on average common. Gulf Power Co.'s rate activities have been modest since the Florida PSC allows rate increases to cover commission approved and environmental outlays. Mississippi Power Co. has no current rate filings before the commission. In 2008, the Mississippi Legislature passed and the Governor signed a bill, "Mississippi Base Load Construction Legislation," that authorizes but doesn't require the Mississippi PSC to include CWIP in rate base. Southern Power is a non-regulated wholesaler but with FERC oversight of purchase power contracts. Revenues of \$1.3 billion were derived 51%/49% between non-affiliates and affiliates in 2008. Earnings growth will reflect capacity additions and rising prices.

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Table 1
Southern Co.
Income Statement
2006-2011

Column	Actual			Estimates		
	(1)	(2)	(3)	(4)	(5)	(6)
\$-Millions	2006	2007	2008	2009	2010	2011
Retail revenues	11,801	12,639	14,055	14,125	14,654	15,212
Sales for resale	1,822	1,988	2,400	2,353	2,471	2,595
Other El. Revenues	465	513	545	545	545	545
Other	268	213	127	127	127	127
Total	14,356	15,353	17,127	17,150	17,797	18,478
Fuel	5,152	5,856	6,818			
Purchased power	543	515	815			
Total Fuel & PP	5,695	6,371	7,633	7,504	7,638	7,776
Gross Margin	8,661	8,982	9,494	9,647	10,159	10,702
% Gross margin	60.3%	58.5%	55.4%	56.2%	57.1%	57.9%
Other operations	2,423	2,495	3,748	3,693	3,759	3,827
Maintenance	1,096	1,175				
D & A	1,200	1,245	1,443	1,501	1,561	1,623
Other taxes	718	741	797	829	862	897
Operating expenses	5,437	5,656	5,988	6,023	6,182	6,347
Operating Income	3,224	3,326	3,506	3,624	3,978	4,355
Interest (AFC - Est.)	893	950	937	1,052	1,136	1,239
Coverage	3.61	3.50	3.74	3.45	3.50	3.52
Pre Tax Income	2,331	2,376	2,569	2,572	2,841	3,117
Income taxes	781	835	915	900	994	1,091
Tax Rate	33.5%	35.1%	35.6%	35.0%	35.0%	35.0%
After Tax Income	1,550	1,541	1,654	1,672	1,847	2,026
Other Inc/Exp						
AFC Total (est.)	77	170	223	250	250	250
Interest income	41	45	33	20	20	20
Losses Equity Subs	(57)	(24)	11	0	0	0
Leveraged lease	69	40	(85)	0	0	0
Impairment loss	(16)					
Other(expense), net	(56)	10	(29)	(30)	(30)	(30)
Total Other	58	241	153	240	240	240
Net Income	1,608	1,782	1,807	1,912	2,087	2,266
Pref Dividends	34	48	65	66	66	66
Balance to Common	1,574	1,734	1,742	1,846	2,021	2,200
Earnings Per Share	2.10	2.28	2.25	2.33	2.47	2.61
Avg Shares Diluted	748	761	775	818	842	867

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Table 2
Southern Co.
Sources & Uses of Funds
2007-2011

Column	(1)	(2)	(3)	(4)	(5)	(6)
\$-Millions	Actual		Estimates			Total
	2007	2008	2009	2010	2011	11-09
Net income	1,782	1,807	1,912	2,087	2,266	6,264
Adjustments						
D & A	1,486	1,704	1,772	1,843	1,917	5,532
Def income taxes	7	215	220	220	220	660
Rev Deferrals		173	(50)	50	50	50
Equity in losses Sub	24	(11)				0
Leveraged lease	(40)	85				0
Pension	39	21	45	45	45	135
Other, net	68	(42)	50	50	50	150
Total Adjustments	1,584	2,145	2,037	2,208	2,282	6,527
Gross Cash Oper.	3,366	3,952	3,949	4,295	4,547	12,791
Less						
AFUDC Total	170	223	250	250	250	750
Pref & Pfr Div.	48	65	66	66	66	197
Common Dividends	1,205	1,280	1,366	1,465	1,540	4,371
Total	1,423	1,568	1,682	1,781	1,856	5,319
Net Cash Operations	1,943	2,384	2,267	2,514	2,692	7,473
Construction Outlays	3,545	3,961	5,700	5,100	5,800	16,600
Unconsol. subsidiaries		1	1	1	1	3
Cost of removal	108	123	125	125	125	375
Gross Construction	3,653	4,085	5,826	5,226	5,926	16,978
AFC Total (est.)	170	223	250	250	250	750
Net Construction	3,483	3,862	5,576	4,976	5,676	16,228
% Generated Internal	55.8%	61.7%	40.7%	50.5%	47.4%	46.0%
Financing Required	1,540	1,478	3,309	2,462	2,984	8,755
Debt	591	1,603	2,297	1,692	2,049	6,037
Preferred & Pref.	470	2	20	49	61	131
Asset Sales Other	33	34	50	50	50	150
Common	538	474	942	671	825	2,437
Total Financing	1,632	2,113	3,309	2,462	2,984	8,755
Capitalization						
Debt	16,656	18,647	20,944	22,636	24,684	
Pref & Pref	1,080	1,082	1,102	1,152	1,213	
Common	12,385	13,276	14,698	15,924	17,409	
Total	30,121	33,005	36,744	39,712	43,306	
% Change	7.7%	9.6%	11.3%	8.1%	9.1%	
Capital Structure						
Debt	55.3	56.5	57.0	57.0	57.0	
Preferred	3.6	3.3	3.0	2.9	2.8	
Common	41.1	40.2	40.0	40.1	40.2	
Total	100.0	100.0	100.0	100.0	100.0	

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Table 3
Southern Co.
Financial Measures

Column	(1)	(2)	(3)	(4)	(5)
Equity Market	Actual		Estimates		
\$-Mil. Except per share	2007	2008	2009	2010	2011
Shares Outstanding	761	775	807	829	854
% Change	1.7%	1.8%	4.2%	2.7%	3.0%
Earnings	2.28	2.25	2.33	2.47	2.61
% Change	8.3%	-1.4%	3.8%	5.8%	5.8%
Return Common	14.0	13.6	13.2	13.2	13.2
Dividend	1.60	1.66	1.73	1.79	1.83
Payout	70.0%	73.9%	74.0%	72.5%	70.0%
% Change		4.1%	4.0%	3.7%	2.2%
Return on Book	9.8%	9.7%	9.5%	9.3%	9.0%
Cash Available Dividend	3,633	3,979	4,232	3,979	4,232
Cash Available PS	4.14	4.77	4.59	4.58	4.73
Book Value	16.27	17.13	18.20	19.21	20.38
% Change			6.3%	5.5%	6.1%
Price Book	2.38	1.69	1.70	1.70	1.70
Price	38.75	29.00	30.94	32.65	34.64
% Change			7%	6%	6%
Dividend Yield	4.1%	5.7%	5.6%	5.5%	5.3%
Annual Return			12.7%	11.3%	11.7%
Price/Earnings	17.0	12.9	13.3	13.2	13.3
Market Value \$ Bil	29	22	25	27	30
Fixed Income					
Preferred Rate	3.1%	6.0%	6.0%	6.0%	6.0%
Interest Expense Net	950	937	1,052	1,136	1,239
Embedded Debt%	5.7%	5.3%	5.0%	5.0%	5.0%
Cash Available Interest	4,146	4,666	4,751	4,836	5,284
Cash Coverage	4.36	4.98	4.52	4.25	4.26
Cash % Average Debt	24.9%	26.4%	24.0%	25.8%	24.2%
Cash % Capitalization	13.8%	14.8%	13.6%	14.5%	13.8%
Other					
Tax Rate	35.1%	35.6%	35.0%	35.0%	35.0%
Retail Kwh	163,615	160,259	157,855	159,434	161,028
% Change	1.4%	-2.1%	-1.5%	1.0%	1.0%
Rev.Kwh	7.72	8.77	8.95	9.19	9.45
Rate Relief Proxy			281	388	411
% Rate Relief			2.0	2.7	2.8
Wholesale Kwh	40,745	39,368	38,581	40,510	42,535
% Change	1.6%	-3.4%	-2.0%	5.0%	5.0%
Rev.Kwh	4.88	6.10	6.10	6.10	6.10
Total Kwh	204,360	199,627	196,436	199,943	203,563
% Change	1.5%	-2.3%	-1.6%	1.8%	1.8%
Fuel & PP kwh	3.12	3.82	3.82	3.82	3.82
Operations kwh	1.22	1.88	1.88	1.88	1.88
Maintenance kwh	0.57				

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 Southern Company reports issued by me are: 10/3/06 (\$35) – Hold.

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.

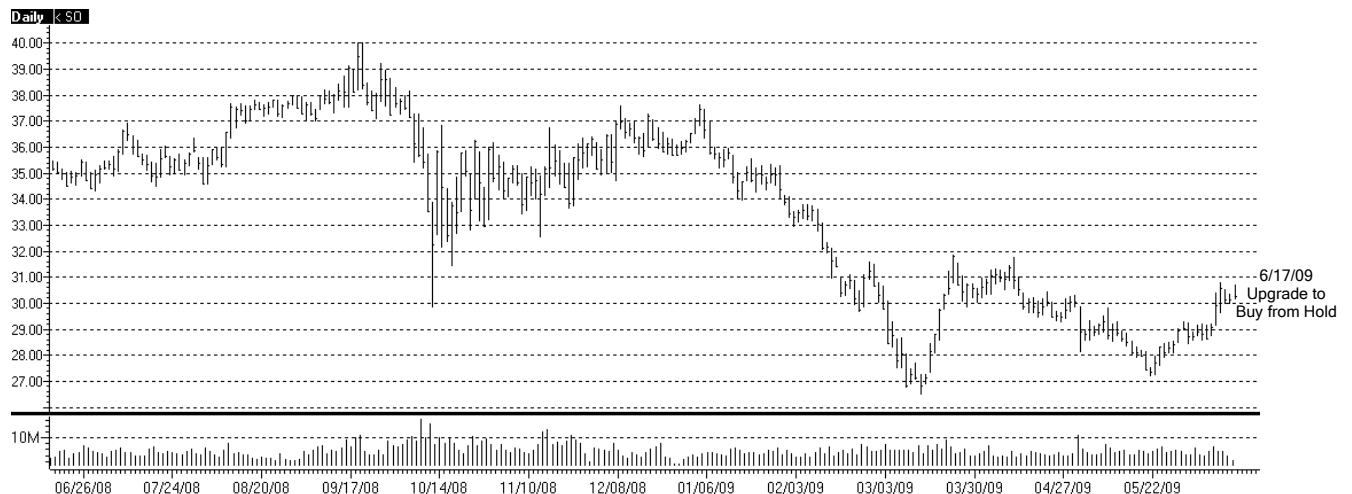
Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy	20%	0%
Hold	80%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments.

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



Important Disclosures, continued

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