



FEATURED OPTIONS RADAR REPORT



Large Call Buyer in Utility Sees Re-Rate Potential

Ticker/Price: SO (\$71)

Analysis:

Southern Co. (SO) closed the session strong on 6/8 as afternoon buyers came for 12,000 November \$75 calls bought \$2 to \$2.08, a very large trade for the name and resulted in 9X daily call volume. SO only other open interest of note are 3500 August \$70 calls sold to open back on 1/26. SO pulled back through May but held key support at \$68.50 as the 89-week EMA, long-term VPOC and VWAP off 2023 lows. SO has room to work back to recent \$75 highs and 2022 highs near \$80. SO has regulated utilities exposure in Georgia, Alabama, and Mississippi. Georgia Power makes up the majority of SO's EPS and is generally a focus area given the Vogtle project. GA Power represents the highest share of EPS at about 55% in 2022. The utility has an above average ROE, at 10.5%, which was recently set through the annual rate process. Alabama Power, which comprises about 40% of the regulated utilities' earnings, could be underappreciated on a favorable regulatory construct with the RSE. SO's current base capital plan is \$43B across 2023-2027 and management has identified \$3+B in potential incremental spend across that period. Opportunities include investments at Southern Power as well as the regulated utilities around renewables, other decarbonization investments, transmission, and resiliency. SO has a market cap of \$76.2B and trades 17.4X Earnings, 2.5X Book and 13.7X EBITDA with a 4% dividend yield. Forecasts see SO EBITDA rising 3% in 2023 and 7.9% in 2024. Analysts have an average target of \$73 with short interest low at 1.4% of the float. Goldman initiated shares at Buy with an \$80 target this week noting that the stock has faced challenges in recent years due to execution missteps at the Vogtle project, but now sees a path to SO re-rating to its historical valuation premium following the in-service of Vogtle Units 3 and 4, which is expected in 2Q23/1Q24, respectively. Mizuho upgraded to Buy on 4/20 calling SO a pure-play operating in constructive jurisdictions.

Hawk Vision:



Hawk's Perspective: SO working out of a small base offers a nice 4% yield as well, more of a boring stock to own with a clear stop near \$68 as the calls are unlikely to see much upside in a slow mover.

Confidence Ranking: \$\$