Gordon Growth Model

GGM Example

Southern Company (SO) is an established electric utilities firm that serves millions of customers across southeastern U.S.

Why GGM?

- **Consistent Dividend History**: Dividend Aristocrat (25+ consecutive years); avg growth of 3.5-4.0%.
- **High Payout Ratio**: 3-year avg DPR: 77.4%; 5-year avg DPR: 86.3%.
- **Mature Industry**: Electric utilities sector with regulated monopoly status ensures predictable cash flows.
- **Financial Leverage**: 3-year avg equity multiplier: 3.9x; 5-year avg equity multiplier: 3.9x

Model Inputs

- **CAPM**: R_e = 0.0440 + 0.823 × 0.0394 --> **7.64%**
  - 10-Year Risk-Free Rate (R_f): **4.40%**
  - Implied ERP (July 2025): **3.94%**
  - Beta: β_L = 0.34 × (1 + 1.8 × (1 - 0.21)) --> **0.823**
- **Perpetual Growth Rate (g)**: **3.0%**

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