

First Community Corporation

OUTPERFORM
FCCO (NASDAQ)
Price \$20.35
Price target \$23.50
Kevin Fitzsimmons

(312) 386-5929

kfitzsimmons@hovdegroup.com

Kevin Swanson

(312) 757-2552

kswanson@hovdegroup.com

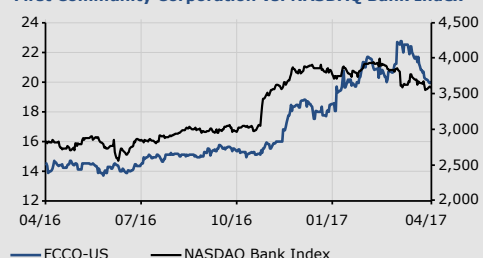
Market Data

Market Cap (\$M)	\$136.3
Price / Tang. Book	1.77x
52-Week Range	\$13.64 - \$23.55
3-Mo. Avg. Daily Volume	12,062
Dividends	\$0.36
Dividend Yield	1.77%
Shares Outstanding (M)	6.7
Institutional Ownership	44.2%
Insider Ownership	8.0%

Financial Summary

As of March 31, 2017

Assets (\$M)	\$914.9
Tangible Book Value	\$11.50
Tang. Common Eq. / Tang. Assets	8.5%
ROA	0.72%
ROE	8.6%
Net Interest Margin	3.52%

Price Performance
First Community Corporation vs. NASDAQ Bank Index

Company Description

First Community Corporation stock trades on the NASDAQ Capital Market under the symbol "FCCO" and is the holding company for First Community Bank, a local community bank based in the Midlands of South Carolina. First Community Bank operates banking offices located in the Midlands, Aiken, Augusta, Georgia, and Greenville. In addition, two other lines of business, First Community Bank Mortgage and First Community Financial Consultants, a financial planning/investment advisory division.

1Q17 Earnings Review: Nudging EPS Ests. and PT Higher; Maintain OUTPERFORM

EPS ESTIMATES

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2016A	\$0.21	\$0.26	\$0.24	\$0.24	\$0.95	5.6%	--	21.4x
2017E	\$0.24A	\$0.26	\$0.28	\$0.29	\$1.07	12.6%	\$0.01	19.0x
2018E	\$0.29	\$0.31	\$0.33	\$0.33	\$1.26	17.8%	\$0.02	16.2x

Reported EPS	\$0.26
Core EPS	\$0.24
Consensus Estimate	\$0.23
Hovde Estimate	\$0.24

[Click Here to Access Our First Look Note](#)

Core EPS slightly ahead of Street expectations: FCCO reported 1Q17 EPS of \$0.26. We estimate core EPS of \$0.24, which came in a penny above consensus, yet in line with our est.

Nudging EPS ests. higher: After inputting FCCO's core 1Q17 results into our model and adjusting our assumptions, we are increasing our 2017 EPS est. by a penny (to \$1.07) and our 2018 EPS est. by 2 cents (to \$1.26). The main adjustments included a higher base NIM and a lower assumed pace of provisioning, partly offset by a lower base of core fee revs and a slightly slower assumed pace of loan growth.

Maintain OUTPERFORM: There is no change to our OUTPERFORM rating following FCCO's 1Q17 earnings report, although we are nudging our PT higher by \$0.50 (to \$23.50) to reflect our increased EPS ests. Overall, we thought that FCCO delivered a slight core beat vs. Street expectations, helped by an expanded NIM and lower credit costs, and we weren't surprised to see the shares react positively today.

We came away from our discussion with mgmt incrementally positive on: (a) the prospect of continued NIM expansion (although after first backing out the 9 bp benefit in 1Q17 related to several nonaccrual loans that paid off), (b) the potential for a substantial 2Q17 rebound in mortgage revenues, (c) the likelihood of credit costs remaining fairly low, and (d) an outlook for flattish core expenses in the near term (as the absence of certain lumpy 1Q17 items are offset by spending ahead of the planned conversion to a new operating system in June, as well as incentive comp tied to increased mortgage revs). Additionally, the CEO continues to be very upbeat about the pending acquisition of Cornerstone Bancorp (expected close in early-4Q17) in conjunction with the ongoing expansion into the economically-vibrant Upstate region of SC.

Important Disclosures regarding Price Target Risks, Valuation Methodology, Regulation Analyst Certification, Investment Banking, Ratings Definitions, and any potential conflicts of interest begin on page 4 of this report. Past performance is no guarantee of future results.

The only area where we sensed a bit of an incremental headwind was on the anticipated pace of loan growth, as the CEO noted that payoffs and pay-downs (which surprisingly crimped 1Q17 loan growth) may continue to have a dampening impact in coming quarters if investor-CRE customers continue to look to sell properties. That said, we fully expect loan growth to remain positive, but perhaps in a mid- to high-single-digit LQA pace –rather than a low-double-digit pace – in the near-term.

Longer-term, we continue to be very positive on FCCO owing to: (a) a discounted valuation relative to the peer median, (b) anticipated double-digit EPS growth and enhancement of core profitability, (c) the combination of a low loan/deposit ratio and a low cost-of-funds – which we believe positions the company well to benefit from a better utilized balance sheet, a stronger economy, and a rising rate environment, (d) the prospect for additional enhancement to the growth profile of the franchise – either from further accretive acquisition opportunities or hiring of teams, and (e) a geographic franchise that we believe will be viewed by investors as having increased scarcity value (given the meaningful consolidation of sizable Carolinas-based banks over the past few years).

First Community Corporation (FCCO)

	\$0.21		\$0.26		\$0.24		\$0.24		\$0.95		\$0.24		\$0.26		\$0.28		\$0.29		\$1.07		\$1.26		
	1Q16A		2Q16A		3Q16A		4Q16A		2016A		1Q17A		2Q17E		3Q17E		4Q17E		2017E		2018E		
	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Est.	% Δ	Est.	% Δ	Est.	Est.	% Δ	Est.	% Δ	
NET INTEREST INCOME ASSUMPTIONS																							
Avg Loans	1.0%	492.2	3.5%	509.5	2.1%	520.1	3.2%	536.9		514.7	8.8%	3.8%	557.5	2.0%	568.7	2.0%	580.0	2.3%	664.0	592.6	15.1%	702.3	18.5%
Avg Securities and CDs	1.1%	283.9	-0.5%	282.5	1.4%	286.3	-1.6%	281.6		283.6	2.8%	-4.8%	268.1	-2.0%	262.8	1.5%	266.7	0.0%	311.1	277.2	-2.3%	311.1	12.2%
Avg Other Earning Assets	-28.2%	16.0	5.0%	16.8	38.7%	23.3	-41.5%	13.6		17.4	-4.6%	-5.6%	12.9	0.0%	12.9	0.0%	12.9	0.0%	24.4	15.7	-9.7%	24.4	54.8%
Average Earning Assets	0.2%	792.1	2.1%	808.7	2.6%	829.8	0.3%	832.2		815.7	6.3%	0.8%	838.5	0.7%	844.3	1.8%	859.6	16.3%	999.5	885.5	8.6%	1,037.7	17.2%
Average Assets	0.8%	865.5	1.7%	880.4	2.3%	900.9	0.6%	905.9		888.2	6.3%	0.8%	912.7	0.7%	919.0	1.8%	935.7	16.3%	1,087.9	963.8	8.5%	1,129.5	17.2%
Net Interest Margin		3.33%		3.43%		3.29%		3.35%		3.36%			3.52%		3.47%		3.49%		3.51%	3.49%		3.53%	
CREDIT ASSUMPTIONS																							
Provision / Avg Loans		0.11%		0.17%		0.14%		0.18%		0.15%	1		0.08%		0.08%		0.09%		0.08%	0.08%	0	0.14%	1
Net Charge-Off Ratio		0.04%		0.02%		0.01%		0.05%		0.03%	0		-0.03%		0.02%		0.04%		0.06%	0.02%	0	0.08%	1
Reserves / Loans		0.95%		0.95%		0.96%		0.95%		0.95%			0.97%		0.96%		0.96%		0.94%	0.94%		0.93%	
INCOME STATEMENT																							
Net Interest Income	1.5%	6,595	5.2%	6,935	-1.0%	6,867	2.1%	7,013		27,410	5.1%	3.8%	7,279	0.1%	7,284	3.5%	7,541	16.9%	8,819	30,923	12.8%	36,639	18.5%
Loan Loss Provision (Recovery)	-5.4%	140	55.0%	217	-17.5%	179	33.0%	238		774	-32%	-51.3%	116	-2.0%	114	14.8%	131	1.8%	133	493	-36%	968	96%
Deposit service charges	-10.1%	347	-2.0%	340	10.9%	377	-9.5%	341		1,405	-4.4%	-6.2%	320	5.0%	336	2.5%	344	1.0%	348	1,348	-4.0%	1,414	4.9%
Mortgage banking income	-11.7%	665	37.3%	913	2.6%	937	-7.5%	867		3,382	-1.5%	-22.7%	670	34.0%	898	3.0%	925	-3.0%	897	3,390	0.2%	3,554	4.9%
Investment advisory fees	-1.0%	291	2.1%	297	-4.7%	283	-6.7%	264		1,135	-11.8%	-2.3%	258	0.0%	258	1.5%	262	2.0%	267	1,045	-7.9%	1,123	7.5%
Other non-interest income	5.5%	724	1.4%	734	-1.1%	726	-0.1%	725		2,909	11.3%	-1.5%	714	2.0%	728	1.5%	739	1.5%	953	3,135	7.8%	3,958	26.3%
Total Noninterest Income	-4.3%	2,027	12.7%	2,284	1.7%	2,323	-5.4%	2,197		8,831	0.3%	-10.7%	1,962	13.2%	2,220	2.3%	2,270	8.6%	2,465	8,918	1.0%	10,050	12.7%
Operating Revenue	0.0%	8,622	6.9%	9,219	-0.3%	9,190	0.2%	9,210		36,241	3.9%	0.3%	9,241	2.8%	9,504	3.2%	9,811	15.0%	11,284	39,840	9.9%	46,689	17.2%
Salaries and employee benefits	3.9%	3,751	2.2%	3,833	1.4%	3,888	-1.0%	3,851		15,323	6.2%	6.1%	4,086	0.0%	4,086	1.5%	4,147	0.5%	4,168	16,487	7.6%	17,153	4.0%
Occupancy	-3.3%	559	-8.6%	511	3.9%	531	6.6%	566		2,167	4.4%	-6.9%	527	0.0%	527	1.5%	535	1.0%	540	2,129	-1.7%	2,238	5.1%
Equipment	3.1%	429	1.9%	437	1.1%	442	-5.0%	420		1,728	4.8%	6.2%	446	0.0%	446	1.5%	453	1.5%	459	1,804	4.4%	1,908	5.7%
Marketing & public relations	-43.0%	94	107.4%	195	23.1%	240	40.0%	336		865	2.0%	-34.2%	221	5.0%	232	5.0%	244	5.0%	256	953	10.1%	1,011	6.2%
FDIC assessment	0.0%	138	0.0%	138	-56.5%	60	26.7%	76		412	-21.8%	2.6%	78	0.0%	78	0.0%	78	0.0%	78	312	-24.3%	312	0.0%
Amortization of intangibles	-5.7%	83	-3.6%	80	0.0%	80	-6.3%	75		318	-17.8%	0.0%	75	-2.0%	74	-2.0%	72	-2.0%	98	319	0.3%	374	17.3%
Other expense	19.3%	1,237	-9.6%	1,118	9.7%	1,227	-3.8%	1,180		4,762	12.3%	6.8%	1,260	2.5%	1,292	-2.5%	1,259	-1.5%	2,184	5,994	25.9%	8,135	35.7%
Noninterest expense, ex credit	4.3%	6,291	0.3%	6,312	2.5%	6,468	0.6%	6,504		25,575	5.9%	2.9%	6,693	0.6%	6,734	0.8%	6,788	14.7%	7,783	27,998	9.5%	31,131	11.2%
OREO expense	-43.3%	51	-58.8%	21	447.6%	115	-87.8%	14		201	-61.6%	92.9%	27	-12.0%	24	0.0%	24	-25.0%	18	92	-54.1%	73	-20.7%
Noninterest Expense	3.6%	6,342	-0.1%	6,333	3.9%	6,583	-1.0%	6,518		25,776	4.4%	3.1%	6,720	0.6%	6,758	0.8%	6,812	14.5%	7,801	28,091	9.0%	31,204	11.1%
Pretax Operating Income	-8.9%	2,140	24.7%	2,669	-9.0%	2,428	1.1%	2,454		9,691	6.9%	-2.0%	2,405	9.5%	2,633	9.0%	2,869	16.7%	3,350	11,257	16.2%	14,516	29.0%
Pre-tax, Pre-Provision Operating Income	-8.7%	2,280	26.6%	2,886	-9.7%	2,607	3.3%	2,692		10,465	2.6%	-6.4%	2,521	8.9%	2,746	9.2%	3,000	16.1%	3,483	11,750	12.3%	15,485	31.8%
Pre-tax, Pre Credit Costs Operating Income	-9.9%	2,331	24.7%	2,907	-6.4%	2,722	-0.6%	2,706		10,666	-0.6%	-5.8%	2,548	8.7%	2,770	9.1%	3,023	15.8%	3,500	11,842	11.0%	15,558	31.4%
Net securities gains		59		64		478		0		601			54		0		0		0	54		0	
Net nonrecurring items		3		(84)		(414)		3		(492)			(38)		0		0		(2,064)	(2,102)		0	
Pretax Income	-5.2%	2,202	20.3%	2,649	-5.9%	2,492	-1.4%	2,457		9,800	6.2%	-1.5%	2,421	8.7%	2,633	9.0%	2,869	-55.2%	1,286	9,209	-6.0%	14,516	57.6%
Taxes		734		904		815		665		3,118	0.5%		665		856		932		418	2,871	-7.9%	4,790	66.9%
Effective Tax Rate		33.3%		34.1%		32.7%		27.1%		31.8%			27.5%		32.5%		32.5%		32.5%	31.2%		33.0%	
Net Income	-8%	1,468	18.9%	1,745	-3.9%	1,677	6.9%	1,792		6,682	9.1%	-2%	1,756	1.2%	1,777	9.0%	1,937	-55.2%	868	6,338	-5.2%	9,726	53.5%
Preferred stock dividends		0		0		0		0		0			0		0		0		0	0		0	
Net Income available to common	-8.3%	1,468	18.9%	1,745	-3.9%	1,677	6.9%	1,792		6,682	9.1%	-2.0%	1,756	1.2%	1,777	9.0%	1,937	-55.2%	868	6,338	-5.2%	9,726	53.5%
Avg Shares Outstanding	0.2%	6,751		6,733		6,762		6,805		6,763	0.9%	0.1%	6,813		6,813		6,813		7,690	7,033	4.0%	7,690	9.3%
Period End Shares	0.0%	6,693		6,699		6,703		6,708		6,708	0.3%	-0.2%	6,697		6,697		6,697		7,574	7,574	12.9%	7,574	0.0%
Share Repurchases								0		0				\$0.00	0	\$0.00	0	\$0.00	0	0		0	
Shares Issued								0		0					0		0		877	877		0	
Dividend		\$0.08		\$0.08		\$0.08		\$0.08		\$0.32			\$0.09		\$0.09		\$0.09		\$0.09	\$0.36		\$0.36	
Dividend Payout Ratio		36.8%		30.9%		32.3%		30.4%		32.3%			34.9%		34.5%		31.7%		79.7%	39.6%		28.6%	
EPS - Diluted	-8.5%	\$0.22	19.2%	\$0.26	-4.3%	\$0.25	6.2%	\$0.26		\$0.99	7.6%	-2.1%	\$0.26	1.2%	\$0.26	9.0%	\$0.28	-60.3%	\$0.11	\$0.91	-8.1%	\$1.26	38.5%
Core EPS	-12.1%	\$0.21	23.6%	\$0.26	-7.5%	\$0.24	0.0%	\$0.24		\$0.95	5.6%	-2.1%	\$0.24	10.3%	\$0.26	9.0%	\$0.28	3.4%	\$0.29	\$1.07	12.6%	\$1.26	17.8%
PERFORMANCE RATIOS																							
Core ROAA		0.66%		0.80%		0.73%		0.73%		0.73%			0.72%		0.77%		0.83%		0.83%	0.79%		0.86%	
Pre-tax, Pre-provision ROAA		1.05%		1.31%		1.16%		1.19%		1.18%			1.10%		1.20%		1.28%		1.28%	1.22%		1.37%	
Core ROAE		7.10%		8.55%		7.74%		7.87%		7.82%			7.99%		8.49%		9.12%		9.54%	8.81%		9.07%	
Core ROTCE		7.72%		9.26%		8.36%		8.51%		8.47%			8.63%		9.15%		9.81%		10.69%	9.60%		10.45%	
Efficiency Ratio		73.6%		68.7%		71.6%		70.8%		71.1%			72.7%		71.1%		69.4%		69.1%	70.5%		66.8%	
CAPITAL																							
BV Per Share	3.2%	\$12.19	3.1%	\$12.57	-0.1%	\$12.56	-2.9%	\$12.20		\$12.20	3.3%	1.7%	\$12.41	1.4%	\$12.59	1.6%	\$12.79	7.3%	\$13.72	\$13.72	12.4%	\$14.64	6.7%
TBV Per Share	3.7%	\$11.24	3.4%	\$11.62	0.0%	\$11.63	-3.0%	\$11.28		\$11.28	4.1%	1.9%	\$11.50	1.6%	\$11.69	1.8%	\$11.90	-0.6%	\$11.83	\$11.83	4.9%	\$12.79	8.1%
TCE / TA	2.8%	8.71%	1.3%	8.82%	-2.8%	8.58%	-2.9%	8.33%		8.33%	-1.7%	1.8%	8.48%	0.9%	8.55%	0.0%							

IMPORTANT DISCLOSURES:**Regulation Analyst Certification**

We, Kevin Fitzsimmons and Kevin Swanson, hereby certify the views expressed in this research report accurately reflect our personal views about the subject security(ies) or issuer(s). We further certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this report.

Research Disclosures:

Hovde Group, LLC currently makes a market and/or will sell to or buy from customers on a principal basis, the securities of First Community Corporation

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, institutional equities and investment banking.

Hovde Group, LLC is acting as a financial advisor to First Community Corporation in connection with its definitive merger agreement with Cornerstone Bancorp, and this report should not be construed as a proxy solicitation.

Hovde Group, LLC expects to receive or intends to seek compensation for investment banking services from the following subject company in the next three months: First Community Corporation .

Hovde Group, LLC provided investment banking services for the following subject company within the past 12 months: First Community Corporation .

Price Target Risks & Related Risk Factors:

Investment risks associated with the achievement of the price target include, but are not limited to, a company's failure to achieve Hovde Group, LLC's earnings and revenue estimates; unforeseen macroeconomic and/or industry events that adversely affect demand for a company's products or services; product obsolescence; changes in investor sentiment regarding the specific company or industry; intense and rapidly changing competitive pressures; the continuing development of industry standards; the company's ability to recruit and retain competent personnel; and adverse market conditions.

Company Specific Risks:

Risks to the price target, rating, and EPS estimates include: (a) the announcing of a large acquisition that is dilutive to TBV/sh and/or implies considerable integration risk, (b) potential integration issues and/or delays in closing the company's pending acquisition, (c) the announcing of a large, dilutive capital raise, (d) the emergence of unanticipated credit deterioration, (e) NIM compression stemming from heightened deposit pricing competition amid rising ST rates and/or a flattening/inverted yield curve, (f) an economic downturn specific to the company's South Carolina footprint (likely slowing loan growth and pressuring credit quality), and (g) lower bank equity valuations.

Valuation Methodology:

Methodology for ratings and target prices includes both qualitative and quantitative factors including an assessment of industry size, structure, trends and overall sector attractiveness; management; competition; financial condition; and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry or company-specific occurrences. Hovde Group, LLC analysts base valuations on a combination of forward looking earnings multiples and price-to-tangible book multiples. Hovde Group, LLC, believes this accurately reflects the strong absolute value of earnings, the strong earnings growth rate, the inherent profitability, and adjusted balance sheet factors. Additional company-specific valuation methodology is available through Hovde Group, LLC.

Company Specific Valuation:

Our price target of \$23.50 assumes the shares of First Community Corp. (FCCO) will trade at 18.7x our 2018 EPS est. one year out.

Definition of Investment Ratings:

OUTPERFORM: We expect the subject stock to outperform the industry benchmark (NASDAQ Bank) over the next 12 months.

MARKET PERFORM: We expect the subject stock will perform inline with the industry benchmark (NASDAQ Bank) over the next 12 months.

UNDERPERFORM: We expect the subject stock will underperform the industry benchmark (NASDAQ Bank) over the next 12 months.

Ratings Distribution:

Rating Category	Count	Percent	IB Serv./Past 12Mos.	
			Count	Percent
OUTPERFORM	23	31.94%	7	30.43%
MARKET PERFORM	47	65.28%	10	21.28%
UNDERPERFORM	2	2.78%	0	0%

For purposes only of FINRA ratings distribution rules, our Outperform rating falls into a buy rating category; our Market Perform rating falls into a hold rating category; and our Underperform rating falls into a sell rating category.

First Community Corporation Rating History as of 04/18/2017

powered by: BlueMatrix



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST: Contact the Hovde Research Department at 1-855-559-6831, or write to 120 W. Madison Street, Suite 1200, Chicago, IL 60602.

For current company specific disclosures please see the most recently published company report, or contact the Hovde Group Research Department at the address or telephone number listed above. You may also access such disclosures, including price charts or other relevant disclosures, by visiting the following website: <https://hovdegrouppr.com/sellside/priceaction>.

Other Disclosures:

This report has been prepared and issued by Hovde Group, LLC. The information contained in this report (except information regarding Hovde Group, LLC) was obtained from various sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Additional information is available upon request. The information, opinions or recommendations contained in this report speak only as of the date of this report and are subject to change without notice.

This report does not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including the securities of companies mentioned in this report. This report has been prepared and circulated for general information only and does not take into account the financial position or particular needs or investment objectives of any individual or entity. The securities or strategies discussed in this report may not be suitable for all investors. Investors must make their own determination of the appropriateness of an investment in any securities based on the legal, tax and accounting considerations applicable to such investors and their own investment strategy. Investors are cautioned that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance.

Hovde Group, LLC generally prohibits research analysts and members of their households from maintaining a financial interest in securities or options of any company that the analyst covers. This report or any portion thereof may not be reproduced or redistributed by any person for any purpose without the written consent of Hovde Group, LLC.

© Copyright 2017 Hovde Group, LLC. All rights reserved.