

First Community Corporation

OUTPERFORM
FCCO (NASDAQ)
Price \$20.00
Price target \$23.00
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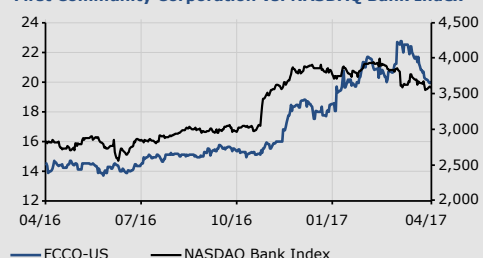
Market Data

Market Cap (\$M)	\$134.0
Price / Tang. Book	1.74x
52-Week Range	\$13.56 - \$23.55
3-Mo. Avg. Daily Volume	12,015
Dividends	\$0.36
Dividend Yield	1.80%
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 First Look: Core EPS Slightly Ahead of Street Expectations

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%	--	21.1x
2017E	\$0.24A	\$0.26	\$0.28	\$0.28	\$1.06	11.6%	--	18.9x
2018E	\$0.28	\$0.31	\$0.32	\$0.33	\$1.24	17.0%	--	16.1x

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

Core EPS beats Street expectations by a penny: FCCO reported 1Q17 EPS of \$0.26. We preliminarily estimate core EPS of \$0.24, which comes in a penny ahead of consensus and in line with our est. Our core number, which is unchanged LQ, excludes the net impact of: (a) \$58k loss on early extinguishment of debt; (b) \$54k gain on securities; (c) \$20k gain on asset sales; and (d) the benefit from a lower than normal tax rate.

Main LQ highlights: LQ comparisons – relative to our forecast – reflected:

- NII increased 3.8% LQ, and came in \$198k above our forecast, reflecting a stronger than expected NIM (up 17 bp LQ vs. our forecast of up 5 bp) and a slightly higher than anticipated balance of AEAs (with better than expected growth in avg. loans more than offsetting steeper than anticipated declines in avg. securities and liquid assets).
- Loan growth was 15.2% LQA using avg. balances and 6.4% LQA using EOP balances. Per the release, loan payoffs and pay-downs impacted EOP loan growth.
- NIM expansion reflected a 9 bp of positive impact from the collection of interest on several nonaccrual loans that paid off in 1Q17. Additionally, the NIM benefited from a more favorable AEA mix and increased yields on loans (from 4.52% to 4.60%) and securities (from 1.97% to 2.15%), while the cost on interest-bearing liabilities remained stable.
- Core fee revs contracted 10.7% LQ, and came in \$195k below our forecast, primarily owing to a steep decline in mortgage banking (down 23% LQ), and to a lesser extent, lower service charges and investment advisory fees. On mortgage, mgmt noted that the LQ decrease reflected seasonal fluctuations, although the company experienced growth in production over the course of the quarter and are encouraged with the momentum heading into the peak mortgage season.

Important Disclosures regarding Price Target Risks, Valuation Methodology, Regulation Analyst Certification, Investment Banking, Ratings Definitions, and any potential conflicts of interest begin on page 3 of this report. Past performance is no guarantee of future results.

- Core noninterest expenses increased 3.1% LQ, and came in \$93k above our forecast, reflecting LQ increases in personnel, equipment, and other expenses (including costs tied to the planned conversion to a new operating system in June), partly offset by lower marketing and occupancy costs.
- The provision for loan losses contracted 51% LQ, and came in \$48k below our forecast. The \$116k provision compared to net recoveries of \$38k, allowing slight expansion in the ALLL/loans ratio (up 2 bp to 0.97%). NPAs contracted 10% LQ, reflecting lower nonaccrual loans and stable OREO, partly offset by higher loans 90+ days PD and still accruing.
- Avg. shares increased 0.1% LQ, roughly in line with our forecast. FCCO increased the quarterly cash dividend by 1 cent to \$0.09.

Our initial take on the quarter: At first glance, we view the core results as slight core beat vs. Street expectations, and consequently, we're not surprised to see the shares trading modestly higher this morning. Main LQ positives were NIM expansion, healthy avg. loan growth, and a sharply lower provision for loan losses. The main LQ headwind was a sharp LQ decline in mortgage revenues.

More broadly, the quarter demonstrated mixed LQ trends in core profitability (with ROAA stable at 0.72%, ROTCE up to 8.63%, and efficiency slightly less favorable at 72.7%), a lack of positive LQ operating leverage (core revs up 0.3% and core expenses up 3.1%), lower core pre-tax, pre-credit costs income (down 5.8% LQ), and improved credit quality (with NPAs down 10% LQ). The company also recorded LQ increases to TBV/sh (from \$11.28 to \$11.50) and TCE/TA (from 8.33% to 8.48%).

We will review our price target and EPS estimates after we have the opportunity to discuss FCCO's 1Q17 core results in more detail with senior mgmt. The company does not hold a public conference call.

[Latest FCCO Company Report](#)

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.

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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.

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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 .

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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 \$23.00 assumes the shares of First Community Corp. (FCCO) will trade at 18.5x 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

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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.

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