

First Community Corporation

OUTPERFORM
FCCO (NASDAQ)
Price \$18.36
Price target \$22.00

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Market Data

Market Cap (\$M)	\$140.7
Price / Tang. Book	1.41x
52-Week Range	\$17.82 - \$26.25
3-Mo. Avg. Daily Volume	11,559
Dividends	\$0.44
Dividend Yield	2.40%
Shares Outstanding (M)	7.7
Institutional Ownership	45.6%
Insider Ownership	5.3%

Financial Summary

<i>As of March 31, 2019</i>	
Assets (\$M)	\$1,097.4
Tangible Book Value	\$13.03
Tang. Common Eq. / Tang. Assets	9.2%
ROA	0.92%
ROE	10.3%
Net Interest Margin	3.73%

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.

1Q19 Earnings Review: Not Quite To The Level Of Last Year, But A Solid Qtr Nevertheless; Attractive Deposit Franchise On Sale – Reiterate OUTPERFORM

EPS ESTIMATES

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2018A	\$0.37	\$0.38	\$0.37	\$0.38	\$1.50	38.9%	--	12.2x
2019E	\$0.33A	\$0.36	\$0.38	\$0.38	\$1.45	(3.3%)	\$-0.04	12.7x
2020E	\$0.37	\$0.39	\$0.41	\$0.42	\$1.59	9.7%	\$-0.04	11.5x

Reported EPS	\$0.32
Core EPS	\$0.33
Consensus Estimate	\$0.34
Hovde Estimate	\$0.33

Core EPS in line with us, a touch short of consensus. FCCO reported 1Q19 EPS of \$0.32. We estimate core EPS of \$0.33 after adjusting for a loss on the sale of securities (\$29K or about \$0.01 per share after-tax). Core EPS of \$0.33 is in line with our estimate and a penny short of consensus.

Not quite to the level of last year, but a solid quarter nevertheless. Amidst a challenging inflection point for most peers last year, FCCO was a positive outlier, fulfilling the promise of higher rates and a stronger economic backdrop. Indeed, the company was ideally positioned for the changing rate environment, with an attractive and resilient core funding base, markets that were conducive to robust growth (coupled with an ability to capitalize on this relative advantage), a strong balance sheet liquidity position, and pristine asset quality. These favorable dynamics translated to impressive NIM expansion, strong loan growth, and an emerging perception of the story as a relative port in the storm.

Given that context, we thought 1Q results were generally pretty solid, though not quite up to the very impressive standard established last year. There were several notable developments:

First, the main positive, and a continuation of the trend set last year, core NIM was up modestly (and is now up 10 of the past 11 reporting periods). Reported NIM was down 6 bps linked qtr (as the company saw 9 bps of nonrecurring benefit to NIM last qtr), but core NIM was up 3 bps, as an increase in core earning asset yields outstripped a 7 bps increase in overall funding costs. The increase in funding costs was attributable to two main factors: First, the company made a mid-quarter adjustment to money market rates to help defend some important core relationships. Second, as is typically the case, deposit balances were down a bit owing to seasonal considerations, and were replaced by higher cost borrowings (up to \$24 mil. at one point during 1Q).

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.

Looking ahead, we see funding costs up a bit more in 2Q, though not to the extent we saw in 1Q, reflecting the full quarter impact of the 1Q mid quarter adjustment to deposit pricing, partially offset by lower borrowing costs, as the aforementioned increased borrowing from 1Q was down to a balance of \$2 mil. at qtr-end, and was eliminated entirely one week into the 2Q. Beyond 2Q, management sees funding costs leveling out over the balance of the year, helped by the revised outlook from the Fed, and new branch openings (Augusta, Greenville), resulting in a good deposit growth pipeline moving into the back half of the year.

Second, perhaps the main negative development was a marked slowdown in loan growth, following two years of solid to robust quarterly increases. Management remarked on our call that 1Q was the slowest period for loan production in two years (at \$26 mil.), which when coupled with the highest payoff activity over that same period, led to just a 2% annualized increase in loan balances. Management also noted that the “payoff pipeline” heading into 2Q was still significant, while the production pipeline was “looking better” than it did in 1Q, which could translate to some modest net growth, followed by a pick-up later in the year, albeit to the mid to high single digit level, down from low double digit growth last year. Management’s general comment on loan demand was that it “just feels softer”, but for no discernible reason.

Third, asset quality remains pristine. The absolute level of problem loans is very low, at just 24 bps of assets, and credit costs are negligible, which, when coupled with the slower loan growth, drove a lower provision than we were expecting (\$105K actual, a little more than half what we had projected). With loan growth expected to remain sluggish near-term, and no material issues of note on the horizon, we don’t anticipate much incremental pressure on provision.

Fourth, fees were a touch better than we were expecting (albeit down a bit linked qtr) and expenses were right in line with our forecast. Mortgage was better than we had modeled, up 10% linked qtr, but down 11% on a YOY basis. Management indicated that March, not surprisingly, was the best month of the quarter for mortgage, the pipeline heading into April was “strong” and that the bulk of it was purchase, and not refi business. Still, we expect mortgage to lag on a year-over-year basis by about 10% (similar to what we saw in 1Q YOY). Investment advisory should pick up some of the slack, with AUM improving to \$325 mil. as of 1Q-end, up from \$288 mil. at year-end. We see fees roughly flat with the prior year level in 2Q. Expenses were up right in line with our expectations in 1Q (up nearly 2% not annualized), due primarily to costs associated with the new branches, which are mostly in the run-rate at this point. The company is opening another branch office in June, so we suspect that costs will be roughly flat in 2Q with the 1Q level, and then ramp up by about \$150K to \$200K in 3Q. Core efficiency measured 71% for the 1Q.

Our near-Street high estimates move a little lower; A premier deposit franchise now on sale – reiterate OUTPERFORM rating. Our estimates move a bit lower this morning, albeit from levels that were higher than consensus heading into the quarter. 2019 is down by \$0.04 to \$1.45 and 2020 is down by \$0.04, to \$1.59, mostly owing to the run-rate implications of the slowdown in loan growth in 1Q, and the revision to loan growth guidance over the intermediate term, partly offset by a slightly higher NIM projection. As for the stock, we are maintaining the OUTPERFORM rating. On the one hand, we acknowledge some of the issues with the story, primarily the subpar profitability profile, and what now appears to be fewer catalysts to drive meaningful fundamental improvement. That being said, this is a steady-eddy performer – an underappreciated characteristic as we head into the later innings of the credit cycle – operating in dynamic markets and boasting one of the premier deposit franchises in the region, with tremendous scarcity value. The premium P/E multiple notwithstanding, we see this franchise worth considerably more than the current 1.4x TBV multiple at which it currently trades. Moreover, while management wouldn’t officially comment one way or the other, we have to think that share repurchase at these levels is moving higher on the list of capital management priorities, a development that we would think would lend considerable support to the shares. We understand that a bull case based on valuation and franchise value is a difficult one to make, as these attributes make for poor near-term stock price catalysts, particularly when a sale is not perceived to be a possibility in the near or intermediate term. That said, top quality deposit franchises don’t tend to go on sale all that often, and we think we’re at that point here, which in our view, outweighs the counter-argument regarding the lack of an obvious near-term catalyst. Reiterate OUTPERFORM.

[Latest FCCO Company Report](#)

First Community Corporation (FCCO)

	\$0.37		\$0.38		\$0.37		\$0.38		\$1.50		\$0.33		\$0.36		\$0.38		\$0.38		\$1.45		\$1.59	
	1Q18A		2Q18A		3Q18A		4Q18A		2018A		1Q19A		2Q19E		3Q19E		4Q19E		2019E		2020E	
	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Actual	Actual	% Δ	% Δ	% Δ	Actual	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ
NET INTEREST INCOME ASSUMPTIONS																						
Avg Loans	5.3%	658.2	2.9%	677.5	2.8%	696.2	2.4%	713.1	686.3	18.8%	1.5%	724.1	0.8%	729.5	2.0%	744.1	2.0%	759.0	739.1	7.7%	797.7	7.9%
Avg Securities and CDs	0.4%	278.7	-1.1%	275.7	-1.6%	271.3	-3.8%	261.0	271.7	2.2%	-3.5%	251.9	0.0%	251.9	0.0%	251.9	0.0%	251.9	251.9	-7.3%	259.3	2.9%
Avg Other Earning Assets	-10.5%	21.0	18.0%	24.8	1.4%	25.1	-13.9%	21.6	23.1	44.0%	-19.2%	17.5	0.0%	17.5	0.0%	17.5	0.0%	17.5	17.5	-24.5%	17.5	0.0%
Average Earning Assets	3.4%	957.9	2.1%	978.0	1.5%	992.6	0.3%	995.7	981.1	14.2%	-0.2%	993.5	0.5%	998.9	1.5%	1,013.5	1.5%	1,028.4	1,008.5	2.8%	1,074.4	6.5%
Average Assets	3.6%	1,054.5	1.8%	1,073.3	1.3%	1,087.2	0.4%	1,091.2	1,076.5	14.8%	-0.2%	1,089.3	0.5%	1,095.3	1.5%	1,111.3	1.5%	1,127.6	1,105.9	2.7%	1,178.1	6.5%
Net Interest Margin		3.66%		3.71%		3.60%		3.79%	3.69%			3.73%		3.73%		3.74%		3.75%	3.73%		3.76%	
CREDIT ASSUMPTIONS																						
Provision / Avg Loans		0.12%		0.02%		0.01%		0.05%	0.05%	0		0.06%		0.08%		0.08%		0.08%	0.07%	1	0.10%	1
Net Charge-Off Ratio		0.01%		-0.04%		-0.06%		0.02%	-0.02%	0		0.01%		0.05%		0.08%		0.08%	0.05%	0	0.08%	1
Reserves / Loans		0.90%		0.89%		0.89%		0.87%	0.87%			0.88%		0.88%		0.87%		0.85%	0.85%		0.81%	
INCOME STATEMENT																						
Net Interest Income	4.6%	8,652	4.6%	9,052	-0.6%	8,998	5.7%	9,509	36,211	19.7%	-3.9%	9,134	1.4%	9,264	2.9%	9,528	1.7%	9,694	37,619	3.9%	40,349	7.3%
Loan Loss Provision (Recovery)	18.8%	202	-85.6%	29	-27.6%	21	347.6%	94	346	-35%	11.7%	105	30.3%	137	2.0%	140	2.0%	142	524	51%	798	52%
Deposit service charges	5.5%	463	-8.6%	423	2.6%	434	3.5%	449	1,769	19.0%	-8.5%	411	10.0%	452	2.5%	463	2.5%	475	1,801	1.8%	1,837	2.0%
Mortgage banking income	14.9%	951	6.8%	1,016	14.1%	1,159	-33.6%	769	3,895	2.7%	9.8%	844	10.0%	928	8.0%	1,003	-15.0%	852	3,627	-6.9%	3,656	0.8%
Investment advisory fees	0.0%	383	4.7%	401	5.5%	423	12.5%	476	1,683	30.4%	-8.0%	438	5.0%	460	2.0%	469	2.0%	478	1,845	9.7%	2,012	9.0%
Other non-interest income	17.0%	921	3.7%	955	-10.5%	855	3.2%	882	3,613	25.4%	-4.2%	845	10.0%	930	1.0%	939	1.0%	948	3,661	1.3%	3,937	7.5%
	11.5%	2,718	2.8%	2,795	2.7%	2,871	-10.3%	2,576	10,960	16.0%	-1.5%	2,538	9.1%	2,770	3.8%	2,874	-4.2%	2,754	10,936	-0.2%	11,442	4.6%
Total Noninterest Income	11.5%	2,718	2.8%	2,795	2.7%	2,871	-10.3%	2,576	10,960	16.0%	-1.5%	2,538	9.1%	2,770	3.8%	2,874	-4.2%	2,754	10,936	-0.2%	11,442	4.6%
Operating Revenue	6.2%	11,370	4.2%	11,847	0.2%	11,869	1.8%	12,085	47,171	18.8%	-3.4%	11,672	3.1%	12,034	3.1%	12,402	0.4%	12,447	48,555	2.9%	51,791	6.7%
Salaries and employee benefits	2.1%	4,577	6.6%	4,881	4.1%	5,079	-2.0%	4,978	19,515	14.8%	3.9%	5,170	0.0%	5,170	2.5%	5,299	0.0%	5,299	20,939	7.3%	22,004	5.1%
Occupancy	8.1%	614	-5.0%	583	4.8%	611	-6.4%	572	2,380	9.9%	14.5%	655	0.0%	655	1.5%	665	0.0%	665	2,640	10.9%	2,761	4.6%
Equipment	-9.7%	381	4.5%	398	-2.5%	388	-10.8%	346	1,513	-14.5%	11.6%	386	0.0%	386	1.5%	392	0.0%	392	1,556	2.8%	1,627	4.6%
Marketing & public relations	-68.9%	89	118.0%	194	-8.8%	177	159.3%	459	919	2.0%	-61.9%	175	5.0%	184	0.0%	184	0.0%	184	726	-21.0%	726	0.0%
FDIC assessment	3.8%	81	2.5%	83	13.3%	94	24.5%	117	375	20.2%	-36.8%	74	0.0%	74	0.0%	74	0.0%	74	296	-21.1%	296	0.0%
Amortization of intangibles	18.3%	142	0.7%	143	-0.7%	142	-4.2%	136	563	64.1%	-2.9%	132	-2.0%	129	-2.0%	127	-2.0%	124	512	-9.0%	473	-7.8%
Other expense	1.4%	1,692	3.3%	1,748	-8.1%	1,606	-3.5%	1,550	6,596	15.5%	9.8%	1,702	0.0%	1,702	2.0%	1,736	0.0%	1,736	6,876	4.2%	7,209	4.8%
Noninterest expense, ex credit	-0.6%	7,576	6.0%	8,030	0.8%	8,097	0.8%	8,158	31,861	13.0%	1.7%	8,294	0.1%	8,300	2.1%	8,476	0.0%	8,474	33,544	5.3%	35,095	4.6%
OREO expense	-154.5%	18	72.2%	31	19.4%	37	-67.6%	12	98	133.3%	141.7%	29	-100.0%	0	0.0%	0	0.0%	0	29	-70.4%	0	-100.0%
Noninterest Expense	0.0%	7,594	6.1%	8,061	0.9%	8,134	0.4%	8,170	31,959	13.1%	1.9%	8,323	-0.3%	8,300	2.1%	8,476	0.0%	8,474	33,573	5.1%	35,095	4.5%
Pretax Operating Income	21.2%	3,574	5.1%	3,757	-1.1%	3,714	2.9%	3,821	14,866	36.1%	-15.1%	3,244	10.9%	3,597	5.3%	3,786	1.2%	3,831	14,458	-2.7%	15,899	10.0%
Pre-tax, Pre-Provision Operating Income	21.0%	3,776	0.3%	3,786	-1.3%	3,735	4.8%	3,915	15,212	32.8%	-14.5%	3,349	11.5%	3,734	5.1%	3,925	1.2%	3,974	14,981	-1.5%	16,697	11.4%
Pre-tax, Pre Credit Costs Operating Income	22.9%	3,794	0.6%	3,817	-1.2%	3,772	4.1%	3,927	15,310	33.2%	-14.0%	3,378	10.5%	3,734	5.1%	3,925	1.2%	3,974	15,010	-2.0%	16,697	11.2%
Net securities gains		(102)		94		0		(332)	(340)			(29)		0		0		0	(29)		0	
Net nonrecurring items		15		(142)		(29)		16	(140)			0		0		0		0	0		0	
Pretax Income	50.1%	3,487	6.4%	3,709	-0.6%	3,685	-4.9%	3,505	14,386	43.8%	-8.3%	3,215	11.9%	3,597	5.3%	3,786	1.2%	3,831	14,429	0.3%	15,899	10.2%
Taxes		778		708		852		819	3,157	-24.6%		720		845		890		900	3,355	6.3%	3,736	11.4%
Effective Tax Rate		22.3%		19.1%		23.1%		23.4%	21.9%			22.4%		23.5%		23.5%		23.5%	23.3%		23.5%	
Net Income	440%	2,709	10.8%	3,001	-5.6%	2,833	-5.2%	2,686	11,229	93.1%	-7%	2,495	10.3%	2,752	5.3%	2,896	1.2%	2,931	11,074	-1.4%	12,163	9.8%
Preferred stock dividends		0		0		0		0	0			0		0		0		0	0		0	
Net Income available to common	439.6%	2,709	10.8%	3,001	-5.6%	2,833	-5.2%	2,686	11,229	93.1%	-7.1%	2,495	10.3%	2,752	5.3%	2,896	1.2%	2,931	11,074	-1.4%	12,163	9.8%
Avg Shares Outstanding	2.5%	7,713		7,726		7,724		7,732	7,724	10.6%	-0.1%	7,725		7,700		7,675		7,675	7,694	-0.4%	7,675	-0.2%
Period End Shares	0.2%	7,600		7,605		7,630		7,634	7,634	0.6%	0.4%	7,665		7,640		7,615		7,615	7,615	-0.2%	7,615	0.0%
Share Repurchases									0				\$19.00	25	\$20.00	25	\$0.00	0	50		0	
Shares Issued									0					0		0		0	0		0	
Dividend		\$0.10		\$0.10		\$0.10		\$0.10	\$0.40			\$0.11		\$0.11		\$0.11		\$0.11	\$0.44		\$0.48	
Dividend Payout Ratio		28.5%		25.7%		27.3%		28.8%	27.4%			34.1%		30.8%		29.1%		28.8%	30.6%		30.2%	
EPS - Diluted	426.3%	\$0.35	10.6%	\$0.39	-5.6%	\$0.37	-5.3%	\$0.35	\$1.46	71.8%	-7.0%	\$0.32	10.6%	\$0.36	5.6%	\$0.38	1.2%	\$0.38	\$1.44	-1.4%	\$1.59	10.4%
Core EPS	34.3%	\$0.37	5.3%	\$0.38	-3.8%	\$0.37	2.4%	\$0.38	\$1.50	38.9%	-13.9%	\$0.33	9.7%	\$0.36	5.6%	\$0.38	1.2%	\$0.38	\$1.45	-3.3%	\$1.59	9.7%
PERFORMANCE RATIOS																						
Core ROAA		1.02%		1.12%		1.05%		0.98%	1.04%			0.92%		1.00%		1.04%		1.04%	1.00%		1.03%	
Pre-tax, Pre-provision ROAA		1.43%		1.41%		1.37%		1.44%	1.41%			1.23%		1.36%		1.41%		1.41%	1.35%		1.42%	
Core ROAE		10.22%		11.33%		10.59%		9.80%	10.48%			8.77%		9.39%		9.76%		9.73%	9.42%		9.68%	
Core ROTCE		12.19%		13.48%		12.54%		11.57%	12.44%			10.27%		10.94%		11.33%		11.25%	10.96%		11.09%	
Efficiency Ratio		66.8%		68.0%		68.5%		67.6%	67.8%			71.3%		69.0%		68.3%		68.1%	69.1%		67.8%	
CAPITAL																						
BV Per Share	-0.3%	\$13.88	1.4%	\$14.07	0.8%	\$14.18	3.9%	\$14.74	\$14.74	5.8%	3.1%	\$15.19	1.6%	\$15.43	1.7%	\$15.68	1.8%	\$15.96	\$15.96	8.3%	\$17.08	7.0%
TBV Per Share	-0.2%	\$11.64	1.8%	\$11.85	1.1%	\$11.98	4.7%	\$12.55	\$12.55	7.6%	3.8%	\$13.03	1.9%	\$13.28	2.0%	\$13.54	2.2%	\$13.83	\$13.83	10.2%	\$15.02	8.6%
TCE / TA																						

IMPORTANT DISCLOSURES:**Regulation Analyst Certification**

I, Joseph Fenech, hereby certify the views expressed in this research report accurately reflect my personal views about the subject security(ies) or issuer(s). I further certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me 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 acted as financial advisor and provided investment banking services to First Community Corporation in connection with its merger with Cornerstone Bancorp.

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 \$22.00 assumes the shares of First Community Corp. (FCCO) will trade at 13.8x our 2020 EPS est.

Definition of Investment Ratings:

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

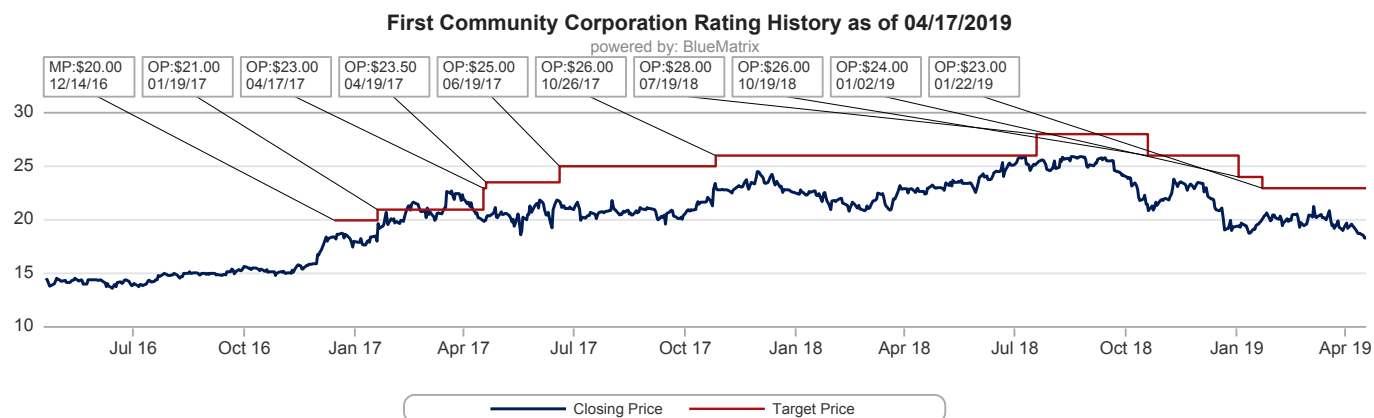
MARKET PERFORM: We expect the subject stock will perform inline with the industry benchmark (NASDAQ Bank) over the next 12 months.

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	38	51.35%	13	34.21%
MARKET PERFORM	35	47.30%	2	5.71%
UNDERPERFORM	1	1.35%	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.



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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