HOVDE GROUP

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First Community Corporation

OUTPERFORM

FCCO (NASDAQ)

Price $19.68
Price target $22.00

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Market Data

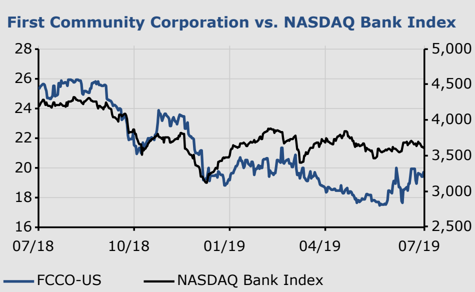
Market Cap ($M)	$151.5
Price / Tang. Book	1.46x
52-Week Range	$17.08 - $26.25
3-Mo. Avg. Daily Volume	45,947
Dividends	$0.44
Dividend Yield	2.24%
Shares Outstanding (M)	7.7
Institutional Ownership	53.6%
Insider Ownership	5.3%

Financial Summary

As of June 30, 2019

Assets ($M)	$1,116.0
Tangible Book Value	$13.46
Tang. Common Eq. / Tang. Assets	9.2%
ROA	1.05%
ROE	11.4%
Net Interest Margin	3.67%

Price Performance



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.

2Q19 First Look: An In-Line Qtr, At First Glance, Albeit With Some Atypical Drivers; Maintain 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%	--	13.1x
2019E	$0.33A	$0.36A	$0.38	$0.38	**$1.45**	(3.3%)	--	13.6x
2020E	$0.37	$0.39	$0.41	$0.42	**$1.59**	9.7%	--	12.4x

Reported EPS	$0.37
Core EPS	$0.36
Consensus Estimate	$0.36
Hovde Estimate	$0.36

Core EPS in line with us and consensus. FCCO reported 2Q19 EPS of $0.37. We estimate core EPS of $0.36 after adjusting for (a) a gain on the sale of securities ($164K or about $0.01 per share after-tax); and, (b) a loss on sale of other assets ($3K or <$0.01). Core EPS of $0.36 is in line with our estimate and consensus.

An in-line quarter, albeit with some atypical drivers. FCCO reported generally solid 2Q results, but with a somewhat different complexion than we had modeled. Management's efforts to diversify the revenue stream in recent years paid dividends in the 2Q, led by exceedingly strong performance on the fee line, particularly mortgage banking and investment advisory – overall fees were up 19% linked qtr (not ann'l) and 8% YOY, driving an overall top line beat relative to our projections ($12.2 mil. in operating revenue compared to us at $12.0 mil., up nearly 5% linked qtr not ann'l). Other contributors to the in-line bottom line result was a fairly aggressive pace of share repurchase (185K shares at an average price of $18.41) – a new development for FCCO, albeit one that was somewhat telegraphed by a repurchase authorization disclosure during the 2Q) – and excellent asset quality, which when coupled with a modest pace of loan growth, translated to a much-lower-than-expected provision, which was essentially nil. These positive developments helped to offset NIM contraction (down 6 bps – we had NIM flat linked qtr), acontinued moderation in the pace of loan growth – loan balances were up nearly 5% ann'l (management commented in the release that while commercial loan production was "up significantly" from 1Q, loan payoffs and paydowns negatively impacted the net growth in balances), and a higher-than-expected expense base in 2Q. Expenses were higher than we modeled, but this is not completely unexpected, coming on the heels of a new branch opening (downtown Greenville) in 1Q19 and another branch opening in Evans, GA in June.

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.

Shares were up yesterday, which we saw as appropriate, given a combination of the top line beat, coupled with the recent weakness in the share price, which struck as less connected to fundamentals and more so with the dynamics around the Russell rebalancing. Heading into our conversation with management, we're focused primarily on the outlook for loan growth and NIM, given the change in the backdrop for market interest rates, getting a better sense for the new baseline for expenses with the new office openings now behind the company, the sustainability of the strong performance in 2Q on the fee line, and management's appetite for continued share repurchase. Shares strike us as attractively valued, but with that being said, near-term fundamental catalysts seem lacking. We'll update our thoughts on the stock in more detail following our discussion with management – maintain OUTPERFORM.

Latest FCCO Company Report

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

Hovde Group, LLC provided and received compensation for providing non-investment banking securities related services for the following subject company within the past 12 months: 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 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 .

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:

			IB Serv./Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
OUTPERFORM	40	49.38%	12	30.00%
MARKET PERFORM	41	50.62%	3	7.32%
UNDERPERFORM	0	0.00%	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.

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://hovdegroup.bluematrix.com/sellside/Disclosures.action.

Other Disclosures:

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