

First Community Corporation

OUTPERFORM
FCCO (NASDAQ)
Price \$19.31
Price target \$22.00

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Market Data

Market Cap (\$M)	\$145.0
Price / Tang. Book	1.43x
52-Week Range	\$17.08 - \$26.25
3-Mo. Avg. Daily Volume	45,063
Dividends	\$0.44
Dividend Yield	2.28%
Shares Outstanding (M)	7.5
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

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.

2Q19 Review: An In-Line Qtr And Stable Outlook, Amidst A Shift In Earnings Drivers; Good Entry Point, But Near-Term Catalysts Lacking – Maintain OUTPERFORM

EPS ESTIMATES								
	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2019E	\$0.33A	\$0.36A	\$0.36	\$0.36	\$1.41	(6.0%)	\$-0.04	13.7x
2020E	\$0.36	\$0.37	\$0.40	\$0.40	\$1.53	8.5%	\$-0.06	12.6x
2021E	\$0.39	\$0.40	\$0.42	\$0.42	\$1.63	6.5%	--	11.8x

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

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Core EPS in line with us and consensus. FCCO reported 2Q19 EPS of \$0.37. We estimate operating 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 the 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 and stable outlook, amidst a shift in earnings drivers. Our big picture takeaway is that the quarter was respectable and the outlook seems relatively stable, though the complexion of the earnings profile is changing. So in that sense, 2Q seemed to mark a fundamental inflection point of sorts, with NIM shifting from tailwind to EPS headwind, offset primarily by business lines such as mortgage and wealth management that seem set to pick up the slack, at least in the near-term.

Following a period in which NIM was up virtually every quarter for nearly three years, margin reversed course in 2Q, contracting 6 bps due primarily to higher funding costs. Our sense is that funding costs head moderately higher from here (mostly CD's and money market) before leveling out later this year and possibly declining slightly into next year. At the same time, management indicated that asset yields will be pressured in this environment (which assumes at 25 bps Fed rate cut later this month), which when coupled with near-term pressure on funding costs, will likely translate to another 4-5 bps of NIM compression in 3Q, followed by relative NIM stability. Loan growth, another significant driver of improved fundamental performance in recent years, also continues to slow – likely to the mid single digit range – mostly reflecting elevated payoff activity (as production, per management, was "a lot better" in 2Q relative to the prior qtr), which management attributed primarily to CRE sale activity.

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.

That being said, other areas are set to help pick up the slack, at least in the very near-term. The company has invested heavily in fee businesses in recent years, which is now paying off, functioning as a natural hedge, of sorts, in a lower interest rate environment. Mortgage banking revenues were up 47% linked qtr (not annualized) and 22% YOY, and we suspect will remain buoyant at least through the 3Q, while wealth management revenues were up nearly 12% linked qtr (not ann'l) and 22% YOY, reflecting strong market performance and the aforementioned investment in people and infrastructure in recent years, along with new, vibrant geographic coverage areas.

Expense control has been a challenge, but this has been deliberate, given an aggressive de novo expansion plan over the past couple of years, which included the opening of new branch offices in Augusta (1Q18), downtown Greenville (1Q19), and more recently, Evans, GA, in June 2019, along with associated personnel and elevated marketing spend, and considerable investment in building up its varied fee businesses (mortgage and wealth, most notably). Management has indicated that it is now through what it refers to as its "investment phase", with expenses now likely to level out over the next several quarters, and nothing new in terms of major investments on the horizon for the foreseeable future.

From an asset quality perspective, there just really isn't any new news to report, as management doesn't see anything on the horizon that is of material concern. When coupled with the slowdown in net loan growth, we don't see much in the way of incremental pressure on provisioning in upcoming periods.

On the capital management front, management was aggressive with share repurchase in the 2Q, and with the share price now slightly higher, we had suspected that the company might be a little less aggressive over the balance of the year. But given the muted loan growth outlook, a relatively weaker stock currency (relative to recent years) – making M&A less likely – and with CECL implantation now delayed for small banks, we think management could again turn to a fairly aggressive pace of share repurchase as a means of excess capital deployment.

Trimming our Street-high EPS estimates; Good Entry Point, But Near-Term Catalysts Lacking – Maintain OUTPERFORM.

Our Street-high EPS estimates move a little lower – 2019 is down by \$0.04 to \$1.41; and 2020 is lower by \$0.06 to \$1.53, as we hadn't yet adjusted our modeling to reflect the change in the interest rate environment over the past few months. That being said, we suspect that our estimates will remain moderately higher than the Street consensus forecast. As for the stock, we are sticking with the OUTPERFORM rating. The deletion of the stock from the Russell was unfortunate, in the sense that it just seemed to feed on itself over the course of the past couple of months, as selling seemed to beget more selling, with potential buyers fearful of stepping into the selling pressure. With that dynamic now behind us, the stock strikes us as compellingly valued, trading at just over 1.4x TBV, this for a top tier, scarce deposit franchise in consolidating, highly attractive markets. That said, with 2Q representing an inflection point for NIM, and amidst a shifting to fundamental earnings drivers that aren't as highly valued by the market (mortgage, etc.), we see fundamentals as unlikely to catalyze the shares in the near-term. Bottom line, there is value here, and we like the entry point from a longer-term perspective, with the caveat that near-term share price appreciation potential is less certain. Maintain OUTPERFORM.

First Community Corporation (FCCO)

	\$0.33		\$0.36		\$0.36		\$0.36		\$1.41		\$0.36		\$0.37		\$0.40		\$0.40		\$1.53		\$1.63	
	1Q19A		2Q19A		3Q19E		4Q19E		2019E		1Q20E		2Q20E		3Q20E		4Q20E		2020E		2021E	
	% Δ	Actual	% Δ	Actual	% Δ	Est.	% Δ	Est.	Est.	% Δ	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	
NET INTEREST INCOME ASSUMPTIONS																						
Avg Loans	1.5%	724.1	0.6%	728.7	1.3%	737.8	1.3%	747.0	734.4	7.0%	1.3%	756.4	1.3%	765.8	1.3%	775.4	1.3%	785.1	770.7	4.9%	809.9	5.1%
Avg Securities and CDs	-3.5%	251.9	-0.6%	250.3	0.0%	250.3	0.0%	250.3	250.7	-7.7%	1.3%	253.4	1.3%	256.6	1.3%	259.8	1.3%	263.1	258.2	3.0%	273.1	5.7%
Avg Other Earning Assets	-19.2%	17.5	50.9%	26.4	0.0%	26.4	0.0%	26.4	24.2	4.3%	0.0%	26.4	0.0%	26.4	0.0%	26.4	0.0%	26.4	26.4	9.2%	26.4	0.0%
Average Earning Assets	-0.2%	993.5	1.2%	1,005.4	0.9%	1,014.5	0.9%	1,023.7	1,009.3	2.9%	1.2%	1,036.2	1.2%	1,048.8	1.2%	1,061.6	1.2%	1,074.5	1,055.3	4.6%	1,109.4	5.1%
Average Assets	-0.2%	1,089.3	1.3%	1,103.3	0.9%	1,113.3	0.9%	1,123.5	1,107.4	2.9%	1.2%	1,137.1	1.2%	1,151.0	1.2%	1,165.0	1.2%	1,179.2	1,158.1	4.6%	1,217.5	5.1%
Net Interest Margin		3.73%		3.67%		3.62%		3.63%	3.66%			3.64%		3.64%		3.65%		3.65%	3.65%		3.65%	
CREDIT ASSUMPTIONS																						
Provision / Avg Loans		0.06%		0.00%		0.05%		0.05%	0.04%	0		0.08%		0.08%		0.08%		0.08%	0.08%	1	0.10%	1
Net Charge-Off Ratio		0.01%		0.00%		0.05%		0.05%	0.03%	0		0.05%		0.05%		0.05%		0.05%	0.05%	0	0.08%	1
Reserves / Loans		0.88%		0.88%		0.86%		0.85%	0.85%			0.85%		0.85%		0.84%		0.84%	0.84%		0.82%	
INCOME STATEMENT																						
Net Interest Income	-3.9%	9,134	0.8%	9,211	0.2%	9,231	1.2%	9,341	36,918	2.0%	0.4%	9,378	1.2%	9,492	2.6%	9,740	1.2%	9,859	38,469	4.2%	40,496	5.3%
Loan Loss Provision (Recovery)	11.7%	105	-91.4%	9	924.7%	92	1.2%	93	300	-13%	51.9%	142	1.2%	144	1.2%	145	1.2%	147	578	93%	810	40%
Deposit service charges	-8.5%	411	-7.5%	380	2.0%	388	2.0%	395	1,574	-11.0%	-7.5%	366	5.0%	384	1.0%	388	1.0%	392	1,529	-2.8%	1,515	-0.9%
Mortgage banking income	9.8%	844	46.7%	1,238	5.0%	1,300	-15.0%	1,105	4,487	15.2%	0.0%	1,105	2.0%	1,127	2.0%	1,150	0.0%	1,150	4,531	1.0%	4,932	8.8%
Investment advisory fees	-8.0%	438	11.6%	489	3.5%	506	2.0%	516	1,949	15.8%	2.0%	527	2.0%	537	2.0%	548	2.0%	559	2,170	11.3%	2,349	8.2%
Other non-interest income	-4.2%	845	8.6%	918	1.0%	927	1.0%	936	3,627	0.4%	1.5%	950	1.5%	965	1.5%	979	1.5%	994	3,888	7.2%	4,127	6.1%
	-1.5%	2,538	19.2%	3,025	3.2%	3,121	-5.4%	2,953	11,637	6.2%	-0.2%	2,948	2.2%	3,013	1.7%	3,064	1.0%	3,094	12,119	4.1%	12,923	6.6%
Total Noninterest Income	-1.5%	2,538	19.2%	3,025	3.2%	3,121	-5.4%	2,953	11,637	6.2%	-0.2%	2,948	2.2%	3,013	1.7%	3,064	1.0%	3,094	12,119	4.1%	12,923	6.6%
Operating Revenue	-3.4%	11,672	4.8%	12,236	1.0%	12,352	-0.5%	12,294	48,554	2.9%	0.3%	12,326	1.5%	12,505	2.4%	12,805	1.2%	12,953	50,588	4.2%	53,419	5.6%
Salaries and employee benefits	3.9%	5,170	0.8%	5,210	1.0%	5,262	0.0%	5,262	20,904	7.1%	1.0%	5,315	1.0%	5,368	1.0%	5,422	1.0%	5,476	21,580	3.2%	22,737	5.4%
Occupancy	14.5%	655	-1.2%	647	2.0%	660	0.0%	660	2,622	10.2%	1.0%	667	1.0%	673	1.0%	680	1.0%	687	2,706	3.2%	2,852	5.4%
Equipment	11.6%	386	0.8%	389	0.0%	389	0.0%	389	1,553	2.6%	1.0%	393	1.0%	397	1.0%	401	1.0%	405	1,595	2.7%	1,681	5.4%
Marketing & public relations	-61.9%	175	145.7%	430	-25.0%	323	-15.0%	274	1,202	30.8%	-15.0%	233	-15.0%	198	-15.0%	168	-10.0%	152	751	-37.5%	599	-20.2%
FDIC assessment	-36.8%	74	-4.1%	71	0.0%	71	0.0%	71	287	-23.5%	0.0%	71	0.0%	71	0.0%	71	0.0%	71	284	-1.0%	284	0.0%
Amortization of intangibles	-2.9%	132	0.0%	132	-2.0%	129	-2.0%	127	520	-7.6%	-2.0%	124	-2.0%	122	-2.0%	119	-2.0%	117	482	-7.3%	445	-7.8%
Other expense	9.8%	1,702	2.4%	1,743	2.5%	1,787	0.0%	1,787	7,018	6.4%	1.0%	1,804	1.0%	1,822	1.0%	1,841	1.0%	1,859	7,327	4.4%	7,720	5.4%
Noninterest expense, ex credit	1.7%	8,294	4.0%	8,622	0.0%	8,620	-0.6%	8,570	34,106	7.0%	0.4%	8,607	0.5%	8,651	0.6%	8,702	0.7%	8,766	34,726	1.8%	36,317	4.6%
OREO expense	141.7%	29	-37.9%	18	0.0%	18	0.0%	18	83	-15.3%	0.0%	18	0.0%	18	0.0%	18	0.0%	18	72	-13.3%	72	0.0%
Noninterest Expense	1.9%	8,323	3.8%	8,640	0.0%	8,638	-0.6%	8,588	34,189	7.0%	0.4%	8,625	0.5%	8,669	0.6%	8,720	0.7%	8,784	34,798	1.8%	36,389	4.6%
Pretax Operating Income	-15.1%	3,244	10.6%	3,587	1.0%	3,622	-0.2%	3,613	14,066	-5.4%	-1.5%	3,559	3.7%	3,692	6.7%	3,939	2.1%	4,022	15,212	8.2%	16,220	6.6%
Pre-tax, Pre-Provision Operating Income	-14.5%	3,349	7.4%	3,596	3.3%	3,714	-0.2%	3,707	14,365	-5.6%	-0.2%	3,701	3.6%	3,836	6.5%	4,085	2.1%	4,169	15,790	9.9%	17,030	7.9%
Pre-tax, Pre Credit Costs Operating Income	-14.0%	3,378	7.0%	3,614	3.3%	3,732	-0.2%	3,725	14,448	-5.6%	-0.2%	3,719	3.6%	3,854	6.5%	4,103	2.0%	4,187	15,862	9.8%	17,102	7.8%
Net securities gains		(29)		164		0		0	135			0		0		0		0	0		0	
Net nonrecurring items		0		(3)		0		0	(3)			0		0		0		0	0		0	
Pretax Income	-8.3%	3,215	16.6%	3,748	-3.4%	3,622	-0.2%	3,613	14,198	-1.3%	-1.5%	3,559	3.7%	3,692	6.7%	3,939	2.1%	4,022	15,212	7.1%	16,220	6.6%
Taxes		720		867		833		831	3,251	3.0%		819		849		906		925	3,499	7.6%	3,731	6.6%
Effective Tax Rate		22.4%		23.1%		23.0%		23.0%	22.9%			23.0%		23.0%		23.0%		23.0%	23.0%		23.0%	
Net Income	-7%	2,495	15.5%	2,881	-3.2%	2,789	-0.2%	2,782	10,947	-2.5%	-1.5%	2,740	3.7%	2,843	6.7%	3,033	2.1%	3,097	11,713	7.0%	12,490	6.6%
Preferred stock dividends		0		0		0		0	0			0		0		0		0	0		0	
Net Income available to common	-7.1%	2,495	15.5%	2,881	-3.2%	2,789	-0.2%	2,782	10,947	-2.5%	-1.5%	2,740	3.7%	2,843	6.7%	3,033	2.1%	3,097	11,713	7.0%	12,490	6.6%
Avg Shares Outstanding	-0.1%	7,725		7,704		7,679		7,679	7,697	-0.3%		7,679		7,679		7,679		7,679	7,679	-0.2%	7,679	0.0%
Period End Shares	0.4%	7,665		7,511		7,486		7,486	7,486	-1.9%		7,486		7,486		7,486		7,486	7,486	0.0%	7,486	0.0%
Share Repurchases					\$20.00	25	\$0.00	0	25		\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	0		0	
Shares Issued						0		0	0			0		0		0		0	0		0	
Dividend		\$0.11		\$0.11		\$0.11		\$0.11	\$0.44			\$0.12		\$0.12		\$0.12		\$0.12	\$0.48		\$0.48	
Dividend Payout Ratio		34.1%		29.4%		30.3%		30.4%	31.2%			33.6%		32.4%		30.4%		29.8%	31.4%		29.4%	
EPS - Diluted																						
Core EPS	-7.0%	\$0.32	15.8%	\$0.37	-2.9%	\$0.36	-0.2%	\$0.36	\$1.41	-3.4%	-1.5%	\$0.36	3.7%	\$0.37	6.7%	\$0.40	2.1%	\$0.40	\$1.53	8.5%	\$1.63	6.5%
	-13.9%	\$0.33	9.8%	\$0.36	1.5%	\$0.36	-0.2%	\$0.36	\$1.41	-6.0%	-1.5%	\$0.36	3.7%	\$0.37	6.7%	\$0.40	2.1%	\$0.40	\$1.53	8.5%	\$1.63	6.5%
PERFORMANCE RATIOS																						
Core ROAA		0.92%		1.05%		1.00%		0.99%	0.99%			0.96%		0.99%		1.04%		1.05%	1.01%		1.03%	
Pre-tax, Pre-provision ROAA		1.23%		1.30%		1.33%		1.32%	1.30%			1.30%		1.33%		1.40%		1.41%	1.36%		1.40%	
Core ROAE		8.77%		9.84%		9.44%		9.28%	9.33%			9.00%		9.19%		9.65%		9.68%	9.38%		9.36%	
Core ROTCE		10.27%		11.44%		10.95%		10.73%	10.85%			10.36%		10.55%		11.03%		11.03%	10.75%		10.58%	
Efficiency Ratio		71.3%		70.6%		69.9%		69.9%	70.4%			70.0%		69.3%		68.1%		67.8%	68.8%		68.1%	
CAPITAL																						
BV Per Share	3.1%	\$15.19	3.0%	\$15.64	1.6%	\$15.89	1.6%	\$16.15	\$16.15	9.6%	1.5%	\$16.40	1.6%	\$16.66	1.7%	\$16.94	1.7%	\$17.24	\$17.24	6.7%	\$18.42	6.9%
TBV Per Share	3.8%	\$13.03	3.3%	\$13.46	1.9%	\$13.72	2.0%	\$14.00	\$14.00	11.6%	1.9%	\$14.26	1.9%	\$14.54	2.1%	\$14.84	2.1%	\$15.15	\$15.15	8.3%	\$16.41	8.3%
TCE / TA	3.7%	9.24%	-0.5%																			

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 14.4x 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	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.

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