October 19, 2018

First Community Corporation

OUTPERFORM

FCCO (NASDAQ)

Price $21.47
Price target $26.00

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Market Data

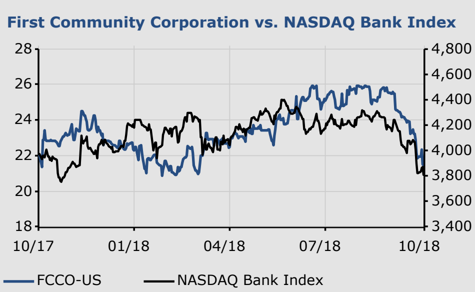
Market Cap ($M)	$163.8
Price / Tang. Book	1.75x
52-Week Range	$20.56 - $26.25
3-Mo. Avg. Daily Volume	9,711
Dividends	$0.40
Dividend Yield	1.86%
Shares Outstanding (M)	7.6
Institutional Ownership	41.5%
Insider Ownership	7.1%

Financial Summary

As of September 30, 2018

Assets ($M)	$1,091.1
Tangible Book Value	$12.25
Tang. Common Eq. / Tang. Assets	8.6%
ROA	1.05%
ROE	12.5%
Net Interest Margin	3.60%

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.

3Q18 Earnings Review: Bottom Line Falls Short On Unexpected NIM Compression; Lowering Ests/PT; Still Better Positioned Than Most; Maintain OUTPERFORM

EPS ESTIMATES

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2018E	$0.37A	$0.38A	$0.37A	$0.37	**$1.49**	38.0%	$-0.04	14.4x
2019E	$0.34	$0.38	$0.42	$0.43	**$1.57**	5.4%	$-0.10	13.7x
2020E	$0.41	$0.43	$0.45	$0.45	**$1.74**	10.8%	$-0.06	12.3x

Reported EPS	$0.37
Core EPS	$0.37
Consensus Estimate	$0.39
Hovde Estimate	$0.39

Core EPS falls short of us and consensus. FCCO reported 3Q18 EPS of $0.37, which we estimate as core. Core EPS of $0.37 compares to our estimate and consensus of $0.39.

Unexpected NIM compression drives surprising bottom line miss. Heading into 3Q earnings season, FCCO was one of the few companies we followed that, in our view, had fully delivered on the promise of a stronger economy and higher interest rates. Loan growth has been robust, NIM expansion was impressive, fee businesses had exhibited strong momentum, asset quality was pristine, and, while we would have liked to see better cost containment, overall top line growth was more than sufficient to drive profitability improvement. In short, we were increasingly confident that this recipe for success could be sustained for the foreseeable future. So given that high bar of expectations, we thought 3Q results, while still very healthy, were a bit disappointing.

NIM fell 11 bps (we had it up 2 bps), primarily due to higher funding costs (up 8 bps, to 45 bps), and, to a lesser extent, pressure on loan and investment portfolio yields, and the mix of new loans produced during the quarter. Management noted that since 3Q16, AEA yields are up 44 bps, compared to just a 10 bps increase in total deposit costs (for a beta of 7% through the first 150 bps of Fed rate increases). However, beta increased to 50% in 3Q, as management looked to defend core customer relationships – so in effect, a “catch-up” adjustment was required that management believes won’t be repeated to the same extent in future periods. Indeed, management estimates beta closer to 25-30% going forward, which should allow for a resumption of the prior NIM expansion trend (about 3 bps for each 25 bps Fed rate increase), albeit from the now lower 3Q NIM level.

Loan growth remained healthy, at about 11% annualized, and the sense we got from our call with the company is that loan growth in the 8%-10% range is reasonable to expect for the foreseeable future (in line with prior guidance). Deposit growth has largely matched loan growth year-to-date, at about 10% annualized linked qtr, but fell short of loan growth in 3Q, due almost entirely to the maturation of an $11 mil. CD that was related to the sale of a business a few years ago. The balance sheet remains very liquid, with a loan to deposit ratio of 76%, enabling the company to avoid chasing irrational competitor specials. Overall AEA balances fell just a touch short of our forecast, and NIM was obviously lower than expected, which translated to a spread income miss relative to our forecast ($9.0 mil. actual compared to us at $9.3 mil.).

Fees were a bright spot yet again, slightly exceeding our forecast, on surprisingly strong mortgage banking results, and investment advisory fee revenue. Management believes it can hold the line on mortgage, with the benefits of new hirings offsetting the cyclical (and now seasonal) slowdown, while momentum in wealth advisory is expected to continue. Overall core operating revenues were basically flat linked qtr, and a hair shy of our forecast.

Expenses were higher than we modeled, up about 1% linked qtr (not annualized), which was attributed mostly to higher incentive pay resulting from the strong mortgage banking result. Core efficiency was nearly 69%, which we are hoping can be improved upon over the intermediate term, as it is the main impediment to more peer-like returns. However, in the short-term, the pace of expense growth will increase a bit, owing to 2 new offices coming on line in the 1H19 (Greenville in 1Q; Augusta in 2Q). Of note, however, a portion of the Greenville staffing is already in the run-rate, as the company has had an LPO team on the ground for some time now.

Asset quality remains pristine, and provision was minimal for the quarter, well below our forecast. Over time, and with continued robust loan growth, we suspect provision expense will trend modestly higher, if only because near-zero simply isn't sustainable over the longer-term – however, there simply don't seem to be any issues of concern on the near-term horizon, per management.

Lowering estimates on NIM reset; Still better positioned than most; Maintain OUTPERFORM. Our estimates move lower this morning, mostly due to the NIM reset, and to a lesser extent, the run-rate implications of the higher than expected 3Q expense base. Our 2018 estimate is down $0.04, to $1.49; 2019 is lower by a dime, to $1.57; and 2020 is down $0.06, to $1.74. Given its track record to date, management deserves the benefit of the doubt on its contention that the upward NIM trajectory should resume, though we no longer take it as a given, as we did previously. Setting aside the 3Q NIM hiccup, the balance sheet remains among the better positioned in our coverage universe – loan growth is robust, the company has ample liquidity, a great funding base, and the market backdrop is very encouraging. Our disappointment with 3Q results really pertains more to the sector at large, in the sense that FCCO is so well-positioned vis a vis peers, and yet still struggled to deliver on the promise of higher rates in 3Q – the implication, of course, is that it's becoming apparent that, contrary to popular belief, very few banks stand to benefit much at all from the current interest rate environment, with downward revisions to 2019 forecasts the likely end result. That being said, with FCCO estimates now (hopefully) rationalized, and shares trading near the very low end of the trading range, we see value in the stock at these levels. Our new target is $26, and we're keeping the OUTPERFORM rating on the shares.

Latest FCCO Company Report

First Community Corporation (FCCO)

		$0.37		$0.38		$0.37		$0.37		$1.49		$0.34		$0.38		$0.42		$0.43		$1.57		$1.74
	1Q18A		2Q18A		3Q18A		4Q18E		2018E		1Q19E		2Q19E		3Q19E		4Q19E		2019E		2020E	
	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Est.	Est.	% Δ	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	Est.	% Δ	Est.	% Δ
NET INTEREST INCOME ASSUMPTIONS																						
Avg Loans	5.3%	658.2	2.9%	677.5	2.8%	696.2	2.3%	711.8	685.9	18.8%	2.3%	727.8	2.3%	744.2	2.3%	761.0	2.3%	778.1	752.8	9.7%	817.8	8.6%
Avg Securities and CDs	0.4%	278.7	-1.1%	275.7	-1.6%	271.3	0.5%	272.7	274.6	3.3%	1.0%	275.4	1.0%	278.2	1.0%	281.0	1.0%	283.8	279.6	1.8%	292.8	4.7%
Avg Other Earning Assets	-10.5%	21.0	18.0%	24.8	1.4%	25.1	0.0%	25.1	24.0	49.5%	0.0%	25.1	0.0%	25.1	0.0%	25.1	0.0%	25.1	25.1	4.6%	25.1	0.0%
Average Earning Assets	**3.4%**	**957.9**	**2.1%**	**978.0**	**1.5%**	**992.6**	**1.7%**	**1,009.7**	**984.6**	**14.6%**	**1.9%**	**1,028.4**	**1.9%**	**1,047.5**	**1.9%**	**1,067.1**	**1.9%**	**1,087.0**	**1,057.5**	**7.4%**	**1,135.7**	**7.4%**
Average Assets	3.6%	1,054.5	1.8%	1,073.3	1.3%	1,087.2	1.7%	1,105.8	1,080.2	15.2%	1.9%	1,126.3	1.9%	1,147.3	1.9%	1,168.7	1.9%	1,190.5	1,158.2	7.2%	1,243.8	7.4%
Net Interest Margin		3.66%		3.71%		3.60%		3.64%	3.65%			3.64%		3.66%		3.67%		3.68%	3.66%		3.68%	
CREDIT ASSUMPTIONS																						
Provision / Avg Loans		0.12%		0.02%		0.01%		0.08%	0.06%	0		0.10%		0.10%		0.10%		0.10%	0.10%	1	0.13%	1
Net Charge-Off Ratio		0.01%		-0.04%		-0.06%		0.05%	-0.01%	0		0.05%		0.05%		0.08%		0.08%	0.06%	0	0.10%	1
Reserves / Loans		0.90%		0.89%		0.89%		0.88%	0.88%			0.87%		0.86%		0.85%		0.84%	0.84%		0.80%	
INCOME STATEMENT																						
Net Interest Income	**4.6%**	**8,652**	**4.6%**	**9,052**	**-0.6%**	**8,998**	**2.7%**	**9,238**	**35,940**	**18.8%**	**0.7%**	**9,307**	**2.4%**	**9,533**	**3.3%**	**9,844**	**2.1%**	**10,055**	**38,739**	**7.8%**	**41,796**	**7.9%**
Loan Loss Provision (Recovery)	18.8%	202	-85.6%	29	-27.6%	21	535.6%	133	385	-27%	36.3%	182	2.3%	186	2.3%	190	2.2%	195	753	95%	1,022	36%
Deposit service charges	5.5%	463	-8.6%	423	2.6%	434	1.0%	438	1,758	18.3%	-2.0%	430	4.0%	447	1.0%	451	1.0%	456	1,783	1.4%	1,849	3.7%
Mortgage banking income	14.9%	951	6.8%	1,016	14.1%	1,159	-11.0%	1,032	4,158	9.7%	-10.0%	928	13.0%	1,049	10.0%	1,154	0.0%	1,154	4,285	3.1%	4,324	0.9%
Investment advisory fees	0.0%	383	4.7%	401	5.5%	423	2.0%	431	1,638	26.9%	2.0%	440	2.0%	449	2.0%	458	2.0%	467	1,814	10.7%	1,963	8.2%
Other non-interest income	17.0%	921	3.7%	955	-10.5%	855	1.0%	864	3,595	24.7%	1.5%	877	1.5%	890	1.5%	903	1.5%	917	3,586	-0.2%	3,806	6.1%
	11.5%	**2,718**	**2.8%**	**2,795**	**2.7%**	**2,871**	**-3.7%**	**2,765**	**11,149**	**18.0%**	**-3.3%**	**2,675**	**6.0%**	**2,834**	**4.6%**	**2,966**	**0.9%**	**2,993**	**11,468**	**2.9%**	**11,942**	**4.1%**
Total Noninterest Income	**11.5%**	**2,718**	**2.8%**	**2,795**	**2.7%**	**2,871**	**-3.7%**	**2,765**	**11,149**	**18.0%**	**-3.3%**	**2,675**	**6.0%**	**2,834**	**4.6%**	**2,966**	**0.9%**	**2,993**	**11,468**	**2.9%**	**11,942**	**4.1%**
Operating Revenue	**6.2%**	**11,370**	**4.2%**	**11,847**	**0.2%**	**11,869**	**1.1%**	**12,003**	**47,089**	**18.6%**	**-0.2%**	**11,982**	**3.2%**	**12,367**	**3.6%**	**12,810**	**1.9%**	**13,048**	**50,207**	**6.6%**	**53,739**	**7.0%**
Salaries and employee benefits	2.1%	4,577	6.6%	4,881	4.1%	5,079	1.0%	5,130	19,667	15.7%	2.3%	5,245	-0.8%	5,206	1.5%	5,284	1.8%	5,376	21,111	7.3%	22,127	4.8%
Occupancy	8.1%	614	-5.0%	583	4.8%	611	1.0%	617	2,425	12.0%	1.0%	623	2.0%	636	1.5%	645	1.0%	652	2,556	5.4%	2,699	5.6%
Equipment	-9.7%	381	4.5%	398	-2.5%	388	3.0%	400	1,567	-11.5%	1.5%	406	1.5%	412	1.5%	418	1.5%	424	1,659	5.9%	1,761	6.1%
Marketing & public relations	-68.9%	89	118.0%	194	-8.8%	177	2.0%	181	641	-28.9%	-5.0%	172	4.0%	178	2.0%	182	0.0%	182	714	11.4%	719	0.8%
FDIC assessment	3.8%	81	2.5%	83	13.3%	94	0.0%	94	352	12.8%	0.0%	94	0.0%	94	0.0%	94	0.0%	94	376	6.8%	376	0.0%
Amortization of intangibles	18.3%	142	0.7%	143	-0.7%	142	-2.0%	139	566	65.1%	-2.0%	136	-2.0%	134	-2.0%	131	-2.0%	128	529	-6.5%	488	-7.8%
Other expense	1.4%	1,692	3.3%	1,748	-8.1%	1,606	3.0%	1,654	6,700	17.3%	2.0%	1,687	0.0%	1,687	2.0%	1,721	1.5%	1,747	6,842	2.1%	7,226	5.6%
Noninterest expense, ex credit	**-0.6%**	**7,576**	**6.0%**	**8,030**	**0.8%**	**8,097**	**1.5%**	**8,214**	**31,917**	**13.2%**	**1.8%**	**8,363**	**-0.2%**	**8,347**	**1.5%**	**8,475**	**1.5%**	**8,603**	**33,788**	**5.9%**	**35,396**	**4.8%**
OREO expense	-154.5%	18	72.2%	31	19.4%	37	-100.0%	0	86	104.8%	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0	-100.0%	0	-
Noninterest Expense	**0.0%**	**7,594**	**6.1%**	**8,061**	**0.9%**	**8,134**	**1.0%**	**8,214**	**32,003**	**13.3%**	**1.8%**	**8,363**	**-0.2%**	**8,347**	**1.5%**	**8,475**	**1.5%**	**8,603**	**33,788**	**5.6%**	**35,396**	**4.8%**
Pretax Operating Income	**21.2%**	**3,574**	**5.1%**	**3,757**	**-1.1%**	**3,714**	**-1.6%**	**3,655**	**14,700**	**34.6%**	**-6.0%**	**3,437**	**11.6%**	**3,834**	**8.1%**	**4,145**	**2.6%**	**4,250**	**15,666**	**6.6%**	**17,320**	**10.6%**
Pre-tax, Pre-Provision Operating Income	21.0%	3,776	0.3%	3,786	-1.3%	3,735	1.4%	3,789	15,086	31.7%	-4.5%	3,619	11.1%	4,020	7.8%	4,335	2.5%	4,445	16,419	8.8%	18,342	11.7%
Pre-tax, Pre Credit Costs Operating Income	22.9%	3,794	0.6%	3,817	-1.2%	3,772	0.4%	3,789	15,172	32.0%	-4.5%	3,619	11.1%	4,020	7.8%	4,335	2.5%	4,445	16,419	8.2%	18,342	11.7%
Net securities gains		(102)		94		0		0	(8)			0		0		0		0	0		0	
Net nonrecurring items		15		(142)		(29)		0	(156)			0		0		0		0	0		0	
Pretax Income	**50.1%**	**3,487**	**6.4%**	**3,709**	**-0.6%**	**3,685**	**-0.8%**	**3,655**	**14,536**	**45.3%**	**-6.0%**	**3,437**	**11.6%**	**3,834**	**8.1%**	**4,145**	**2.6%**	**4,250**	**15,666**	**7.8%**	**17,320**	**10.6%**
Taxes		778		708		852		822	3,160	-24.5%		773		863		933		956	3,525	11.5%	3,897	10.6%
Effective Tax Rate		22.3%		19.1%		23.1%		22.5%	21.7%			22.5%		22.5%		22.5%		22.5%	22.5%		22.5%	
Net Income	440%	2,709	10.8%	3,001	-5.6%	2,833	0.0%	2,833	11,376	95.6%	-6.0%	2,663	11.6%	2,972	8.1%	3,212	2.6%	3,294	12,141	6.7%	13,423	10.6%
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**	**0.0%**	**2,833**	**11,376**	**95.6%**	**-6.0%**	**2,663**	**11.6%**	**2,972**	**8.1%**	**3,212**	**2.6%**	**3,294**	**12,141**	**6.7%**	**13,423**	**10.6%**
Avg Shares Outstanding	2.5%	7,713		7,726		7,724		7,724	7,722	10.5%		7,724		7,724		7,724		7,724	7,724	0.0%	7,724	0.0%
Period End Shares	0.2%	7,600		7,605		7,630		7,630	7,630	0.6%		7,630		7,630		7,630		7,630	7,630	0.0%	7,630	0.0%
Share Repurchases							$0.00	0	0		$0.00	0	$0.00	0	$0.00	0	$0.00	0	0		0	
Shares Issued								0	0			0		0		0		0	0		0	
Dividend		$0.10		$0.10		$0.10		$0.12	$0.42			$0.12		$0.12		$0.13		$0.13	$0.50		$0.52	
Dividend Payout Ratio		28.5%		25.7%		27.3%		32.7%	28.4%			34.8%		31.2%		31.3%		30.5%	31.8%		29.9%	
EPS - Diluted	**426.3%**	**$0.35**	**10.6%**	**$0.39**	**-5.6%**	**$0.37**	**0.0%**	**$0.37**	**$1.48**	**74.1%**	**-6.0%**	**$0.34**	**11.6%**	**$0.38**	**8.1%**	**$0.42**	**2.6%**	**$0.43**	**$1.57**	**6.1%**	**$1.74**	**10.8%**
Core EPS	**34.3%**	**$0.37**	**5.3%**	**$0.38**	**-3.8%**	**$0.37**	**-0.8%**	**$0.37**	**$1.49**	**38.0%**	**-6.0%**	**$0.34**	**11.6%**	**$0.38**	**8.1%**	**$0.42**	**2.6%**	**$0.43**	**$1.57**	**5.4%**	**$1.74**	**10.8%**
PERFORMANCE RATIOS																						
Core ROAA		1.02%		1.12%		1.05%		1.02%	1.05%			0.95%		1.04%		1.10%		1.11%	1.05%		1.08%	
Pre-tax, Pre-provision ROAA		1.43%		1.41%		1.37%		1.37%	1.40%			1.29%		1.40%		1.48%		1.49%	1.42%		1.47%	
Core ROAE		10.22%		11.33%		10.59%		10.38%	10.63%			9.60%		10.53%		11.17%		11.23%	10.65%		10.91%	
Core ROTCE		12.19%		13.48%		12.54%		12.26%	12.62%			11.28%		12.32%		13.01%		13.03%	12.43%		12.52%	
Efficiency Ratio		66.8%		68.0%		68.5%		68.4%	68.0%			69.8%		67.5%		66.2%		65.9%	67.3%		65.9%	
CAPITAL																						
BV Per Share	-0.3%	$13.88	1.4%	$14.07	0.8%	$14.18	1.8%	$14.43	$14.43	3.6%	1.6%	$14.66	1.8%	$14.93	1.9%	$15.22	2.0%	$15.52	$15.52	7.6%	$16.76	8.0%
TBV Per Share	-0.2%	$11.64	1.8%	$11.85	1.1%	$11.98	2.3%	$12.25	$12.25	5.0%	2.0%	$12.50	2.3%	$12.79	2.4%	$13.10	2.4%	$13.42	$13.42	9.5%	$14.73	9.8%
TCE / TA	-1.9%	8.40%	-0.2%	8.38%	1.5%	8.51%	0.5%	8.55%	8.55%	-0.2%	0.1%	8.56%	0.4%	8.59%	0.5%	8.64%	0.5%	8.68%	8.68%	1.6%	8.88%	2.2%

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:

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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.

Hovde Group, LLC acted as financial advisor and provided investment banking services to First Community Corporation in connection with its merger with Cornerstone Bancorp.

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 $26.00 assumes the shares of First Community Corp. (FCCO) will trade at 16.6x our 2019 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.

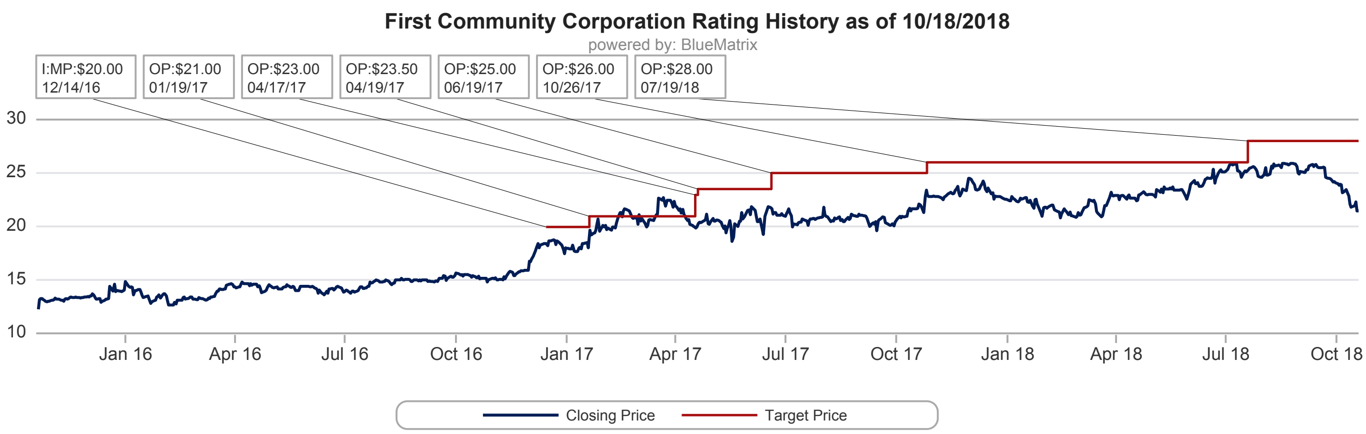
MARKET PERFORM: We expect the subject stock will perform inline with the industry benchmark (NASDAQ Bank) over the next 12 months.

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

Ratings Distribution:

			IB Serv./Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
OUTPERFORM	33	45.83%	12	36.36%
MARKET PERFORM	39	54.17%	2	5.13%
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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