

First Community Corporation

OUTPERFORM
FCCO (NASDAQ)
Price \$22.30
Price target \$26.00

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Market Data

Market Cap (\$M)	\$149.4
Price / Tang. Book	1.91x
52-Week Range	\$18.30 - \$24.87
3-Mo. Avg. Daily Volume	6,412
Dividends	\$0.40
Dividend Yield	1.79%
Shares Outstanding (M)	6.7
Institutional Ownership	46.5%
Insider Ownership	7.9%

Financial Summary

<i>As of December 31, 2017</i>	
Assets (\$M)	\$1,050.7
Tangible Book Value	\$11.66
Tang. Common Eq. / Tang. Assets	8.6%
ROA	0.80%
ROE	9.0%
Net Interest Margin	3.54%

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.

4Q17 Review: Results Fall A Little Short, But Most Key Indicators Look Good; FCCO Seems Well-Positioned; Maintain OUTPERFORM

EPS ESTIMATES

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2017A	\$0.24	\$0.26	\$0.31	\$0.27	\$1.08	13.7%	--	20.6x
2018E	\$0.31	\$0.36	\$0.40	\$0.41	\$1.48	37.0%	\$0.01	15.1x
2019E	\$0.37	\$0.40	\$0.42	\$0.43	\$1.62	9.5%	\$0.03	13.8x

Reported EPS	\$0.07
Core EPS	\$0.27
Consensus Estimate	\$0.28
Hovde Estimate	\$0.30

Core EPS falls a little short of consensus... FCCO reported 4Q17 EPS of \$0.07. We estimate operating EPS of \$0.27, which adjusts for (a) a writedown of the DTA (\$1.2 mil. or \$0.13 per share after-tax); (b) merger costs (\$619K or \$0.06); (c) the purchase of a tax credit (\$164K or \$0.01); and (d) asset sale gains (\$107K or < \$0.01). Operating EPS of \$0.27 compares to consensus of \$0.28 and our estimate of \$0.30.

...but most key operating trends look good. FCCO's 4Q results fell a little short of expectations, primarily due to higher-than-expected expenses in what was a busy quarter with the closing of the Cornerstone acquisition in late October. Still, management believes the company remains on track to extract the promised synergies from the merger, though this is likely to be offset a bit by continued reinvestment in the company. For instance, the company plans to open a new office in downtown August, GA, in March, which will cost a little over \$300K annually, and also plans to add 3 mortgage bankers in 1H18. Our model hadn't fully reflected the planned reinvestments, so our run-rate expense base assumption moves a little higher than we had previously assumed.

Results otherwise generally ranged from in line to better-than-expected, led by loan growth of 13% annualized. Management noted on our call that a good portion of the growth came late in the quarter, so the company has yet to see the full benefit, which bodes well for NII for 1Q. Growth was said to be evenly spread across the footprint, and management is targeting loan growth for 2018 in the range of the 7.5% posted for all of 2017 up to the 13% seen in 4Q. Our updated loan growth projection for 2018 is just about at the midpoint of the range, at 10%.

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.

Slight NIM expansion was another highlight – up 2 bps linked qtr, marking the 6th consecutive quarter of core margin expansion. The value of the company's extremely attractive, low cost deposit franchise continues to be unmasked – deposit costs actually fell slightly, to just 0.22% – while the company also continues to see steady improvement in loan yields (up 4 bps in 4Q, helped a bit by purchase accounting). With another Fed rate hike in December, and seemingly another few on the way, we would expect NIM to continue to show steady improvement.

Fee income came in a little stronger than we had modeled, reflecting an expected seasonal pullback in mortgage banking, and the partial quarter contribution from the merger. Management seems optimistic about fee income growth prospects for 2018, expecting results that should compare favorably to last year. The wildcard is mortgage, though the company should see some traction from recent (2 mortgage bankers added in 2H17) and expected hires (3 bankers expected to be added in 1H18).

Asset quality remains pristine – problem assets increased, but this was due to OREO acquired in the merger that the company is now looking to sell. Special mention loans were higher, due to one credit which management believes is adequately secured by real estate. NCO's were negligible and the company has seen net loan recoveries for the year (\$145K). Bottom line, we don't see provision as a pressure point on earnings for the foreseeable future.

The quarterly dividend was bumped up 11%, and with a projected improvement in earnings just ahead (tax reform; merger synergies, etc.), our sense from our call with management is that there should be room for further dividend increase – for instance, our 4Q18 EPS estimate implies a payout ratio of 25%, down from the 30% - 40% range throughout 2017.

Nudging estimates up a bit on tax reform; FCCO strikes us as very well-positioned for the operating environment ahead; Maintain OUTPERFORM. Our estimates move up a touch, primarily on stronger loan growth than we previously assumed, and a lower effective tax rate due to tax reform, partially offset by a higher expense base than we had modeled previously. Our 2018 estimate is up a penny, to \$1.48 and 2019 is higher by \$0.03, to \$1.62. Management projects an effective tax rate of 19% going forward, which is lower than our initial stab at an estimate post the passage of the recent legislation.

Overall, FCCO strikes us as very well-positioned for the operating environment we expect to see this year. Our confidence is mostly rooted in the quality of the deposit franchise, which leaves us more secure in the trajectory of NIM relative to peers, where we see the Street as potentially overly-optimistic about margin prospects as rates continue to rise – in short, many peers don't strike us as quite as asset sensitive as they perhaps appear. Secondly, we are very encouraged by the pick-up in loan growth, which has tended to be the challenge for FCCO in recent years. The economic backdrop, coupled with the company's entrance into some vibrant markets, should translate to a healthy pace of growth for the foreseeable future. Trading at 15.1x our 2018 estimate and 13.8x our 2019 forecast, FCCO shares aren't quite a "table pounder", but we think the scarcity value of the franchise, the attractive funding base, and solid fundamental prospects warrant the premium valuation, while still leaving sufficient upside to warrant a constructive stance on the stock. Reiterate OUTPERFORM.

[Latest FCCO Company Report](#)

First Community Corporation (FCCO)

	\$0.24		\$0.26		\$0.31		\$0.27		\$1.08		\$0.31		\$0.36		\$0.40		\$0.41		\$1.48		\$1.62		
	1Q17A		2Q17A		3Q17A		4Q17A		2017A		1Q18E		2Q18E		3Q18E		4Q18E		2018E		2019E		
	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ
NET INTEREST INCOME ASSUMPTIONS																							
Avg Loans	3.8%	557.5	0.2%	558.4	2.0%	569.5	9.7%	624.9	577.6	12.2%	2.5%	656.1	2.5%	672.5	2.5%	689.3	2.5%	706.5	681.1	17.9%	742.6	9.0%	
Avg Securities and CDs	-4.8%	268.1	-2.0%	262.8	-3.2%	254.4	9.2%	277.7	265.8	-6.3%	1.3%	290.9	1.3%	294.6	1.5%	299.0	1.5%	303.5	297.0	11.8%	311.1	4.8%	
Avg Other Earning Assets	-5.6%	12.9	2.7%	13.2	11.4%	14.7	59.6%	23.5	16.1	-7.8%	0.0%	26.0	0.0%	26.0	0.0%	26.0	0.0%	26.0	26.0	61.9%	26.0	0.0%	
Average Earning Assets	0.8%	838.5	-0.5%	834.4	0.5%	838.6	10.4%	926.1	859.4	5.4%	5.1%	973.1	2.1%	993.1	2.1%	1,014.3	2.1%	1,036.0	1,004.1	16.8%	1,079.7	7.5%	
Average Assets	0.8%	912.7	-0.4%	908.7	0.3%	911.2	11.8%	1,018.3	937.7	5.6%	5.1%	1,070.0	2.1%	1,092.0	2.1%	1,115.4	2.1%	1,139.2	1,104.1	17.7%	1,187.3	7.5%	
Net Interest Margin		3.52%		3.49%		3.52%		3.54%	3.52%			3.54%		3.55%		3.56%		3.56%	3.55%		3.58%		
CREDIT ASSUMPTIONS																							
Provision / Avg Loans		0.08%		0.06%		0.12%		0.11%	0.09%	1		0.12%		0.12%		0.12%		0.12%	0.12%	1	0.20%	1	
Net Charge-Off Ratio		-0.03%		-0.03%		0.00%		0.02%	-0.01%	0		0.05%		0.05%		0.05%		0.05%	0.05%	0	0.09%	1	
Reserves / Loans		0.97%		0.99%		0.99%		0.90%	0.90%			0.89%		0.89%		0.88%		0.88%	0.88%		0.92%		
INCOME STATEMENT																							
Net Interest Income	3.8%	7,279	-0.2%	7,264	2.4%	7,436	11.3%	8,274	30,253	10.6%	3.5%	8,564	2.3%	8,766	3.6%	9,077	2.1%	9,271	35,678	17.9%	38,689	8.4%	
Loan Loss Provision (Recovery)	-51.3%	116	-32.8%	78	112.8%	166	2.4%	170	530	-32%	15.8%	197	2.5%	202	2.5%	207	2.5%	212	817	54%	1,485	82%	
Deposit service charges	-6.2%	320	8.8%	348	8.9%	379	15.8%	439	1,486	5.8%	-6.5%	410	3.0%	423	2.0%	431	0.0%	431	1,696	14.1%	1,732	2.1%	
Mortgage banking income	-22.7%	670	88.2%	1,261	-18.2%	1,032	-19.8%	828	3,791	12.1%	-2.5%	807	20.0%	969	7.5%	1,041	1.0%	1,052	3,869	2.1%	4,015	3.8%	
Investment advisory fees	-2.3%	258	21.7%	314	7.0%	336	14.0%	383	1,291	13.7%	1.0%	387	2.0%	395	2.0%	402	2.0%	411	1,594	23.5%	1,726	8.2%	
Other non-interest income	-1.5%	714	-1.3%	705	-4.1%	676	16.4%	787	2,882	-0.9%	1.0%	840	2.0%	856	2.0%	873	2.0%	891	3,460	20.1%	3,654	5.6%	
	-10.7%	1,962	33.9%	2,628	-7.8%	2,423	0.6%	2,437	9,450	7.0%	0.3%	2,444	8.1%	2,642	4.0%	2,749	1.3%	2,784	10,620	12.4%	11,126	4.8%	
Total Noninterest Income	-10.7%	1,962	33.9%	2,628	-7.8%	2,423	0.6%	2,437	9,450	7.0%	0.3%	2,444	8.1%	2,642	4.0%	2,749	1.3%	2,784	10,620	12.4%	11,126	4.8%	
Operating Revenue	0.3%	9,241	7.0%	9,892	-0.3%	9,859	8.6%	10,711	39,703	9.7%	2.8%	11,009	3.6%	11,408	3.7%	11,825	1.9%	12,056	46,297	16.6%	49,815	7.6%	
Salaries and employee benefits	6.1%	4,086	5.6%	4,313	-4.4%	4,122	8.7%	4,482	17,003	11.0%	2.5%	4,594	-0.8%	4,560	1.0%	4,605	1.0%	4,651	18,410	8.3%	19,142	4.0%	
Occupancy	-6.9%	527	2.3%	539	-1.3%	532	6.8%	568	2,166	0.0%	1.0%	574	1.0%	579	1.0%	585	1.0%	591	2,329	7.5%	2,448	5.1%	
Equipment	6.2%	446	13.5%	506	-21.7%	396	6.6%	422	1,770	2.4%	1.5%	428	1.5%	435	3.0%	448	3.0%	461	1,772	0.1%	1,915	8.1%	
Marketing & public relations	-34.2%	221	34.8%	298	-67.8%	96	197.9%	286	901	4.2%	-10.0%	257	2.0%	263	2.0%	268	2.0%	273	1,061	17.7%	1,080	1.8%	
FDIC assessment	2.6%	78	0.0%	78	0.0%	78	0.0%	78	312	-24.3%	0.0%	78	0.0%	78	0.0%	78	0.0%	78	312	0.0%	312	0.0%	
Amortization of intangibles	0.0%	75	-1.3%	74	0.0%	74	62.2%	120	343	7.9%	-2.0%	124	-2.0%	121	-2.0%	119	-2.0%	116	480	40.0%	443	-7.8%	
Other expense	6.8%	1,260	13.9%	1,435	-6.0%	1,349	23.6%	1,668	5,712	19.9%	5.0%	1,834	1.0%	1,793	3.0%	1,847	3.0%	1,903	7,377	29.1%	7,870	6.7%	
Noninterest expense, ex credit	2.9%	6,693	8.2%	7,243	-8.2%	6,647	14.7%	7,624	28,207	10.3%	3.5%	7,889	-0.8%	7,829	1.5%	7,950	1.6%	8,074	31,741	12.5%	33,210	4.6%	
OREO expense	92.9%	27	7.4%	29	-34.5%	19	-273.7%	(33)	42	-79.1%	-100.0%	0	0.0%	0	0.0%	0	0.0%	0	0	-100.0%	0	-	
Noninterest Expense	3.1%	6,720	8.2%	7,272	-8.3%	6,666	13.9%	7,591	28,249	9.6%	3.9%	7,889	-0.8%	7,829	1.5%	7,950	1.6%	8,074	31,741	12.4%	33,210	4.6%	
Pretax Operating Income	-2.0%	2,405	5.7%	2,542	19.1%	3,027	-2.5%	2,950	10,924	13.3%	-0.9%	2,923	15.6%	3,377	8.6%	3,669	2.8%	3,770	13,739	25.8%	15,120	10.1%	
Pre-tax, Pre-Provision Operating Income	-6.4%	2,521	3.9%	2,620	21.9%	3,193	-2.3%	3,120	11,454	9.9%	0.0%	3,119	14.7%	3,579	8.3%	3,875	2.7%	3,982	14,556	27.1%	16,605	14.1%	
Pre-tax, Pre Credit Costs Operating Income	-5.8%	2,548	4.0%	2,649	21.3%	3,212	-3.9%	3,087	11,496	8.3%	1.1%	3,119	14.7%	3,579	8.3%	3,875	2.7%	3,982	14,556	26.6%	16,605	14.1%	
Net securities gains		54		172		124		49	399			0		0		0		0	0		0		
Net nonrecurring items		(38)		(253)		(353)		(676)	(1,320)			(454)		0		0		0	(454)		0		
Pretax Income	-1.5%	2,421	1.7%	2,461	13.7%	2,798	-17.0%	2,323	10,003	2.6%	6.3%	2,469	36.8%	3,377	8.6%	3,669	2.8%	3,770	13,285	32.8%	15,120	13.8%	
Taxes		665		797		905		1,821	4,188	36.3%		469		642		697		716	2,524	-39.7%	2,873	13.8%	
Effective Tax Rate		27.5%		32.4%		32.3%		78.4%	41.9%			19.0%		19.0%		19.0%		19.0%	19.0%		19.0%		
Net Income	-2%	1,756	-5.2%	1,664	13.8%	1,893	-73.5%	502	5,815	-13.0%	298.3%	2,000	36.8%	2,736	8.6%	2,972	2.8%	3,054	10,760	85.0%	12,247	13.8%	
Preferred stock dividends		0		0		0		0	0			0		0		0		0	0		0		
Net Income available to common	-2.0%	1,756	-5.2%	1,664	13.8%	1,893	-73.5%	502	5,815	-13.0%	298.3%	2,000	36.8%	2,736	8.6%	2,972	2.8%	3,054	10,760	85.0%	12,247	13.8%	
Avg Shares Outstanding	0.1%	6,813		6,803		6,808		7,521	6,986	3.3%		7,521		7,521		7,521		7,521	7,521	7.7%	7,521	0.0%	
Period End Shares	-0.2%	6,697		6,702		6,706		7,588	7,588	13.1%		7,588		7,588		7,588		7,588	7,588	0.0%	7,588	0.0%	
Share Repurchases		0		0		0		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		0	0		0		
Dividend		\$0.09		\$0.09		\$0.09		\$0.10	\$0.37			\$0.10		\$0.10		\$0.11		\$0.11	\$0.42		\$0.46		
Dividend Payout Ratio		34.9%		36.8%		32.4%		149.8%	43.5%			37.6%		27.5%		27.8%		27.1%	29.2%		28.4%		
EPS - Diluted																							
Core EPS	-2.1%	\$0.26	-5.1%	\$0.24	13.7%	\$0.28	-76.0%	\$0.07	\$0.85	-14.1%	298.3%	\$0.27	36.8%	\$0.36	8.6%	\$0.40	2.8%	\$0.41	\$1.44	69.4%	\$1.62	12.5%	
	-2.1%	\$0.24	8.9%	\$0.26	18.7%	\$0.31	-11.2%	\$0.27	\$1.08	13.7%	15.8%	\$0.31	15.6%	\$0.36	8.6%	\$0.40	2.8%	\$0.41	\$1.48	37.0%	\$1.62	9.5%	
PERFORMANCE RATIOS																							
Core ROAA		0.72%		0.81%		0.94%		0.80%	0.82%			0.89%		1.00%		1.07%		1.07%	1.01%		1.03%		
Pre-tax, Pre-provision ROAA		1.10%		1.15%		1.40%		1.23%	1.22%			1.17%		1.31%		1.39%		1.40%	1.32%		1.40%		
Core ROAE		7.99%		8.66%		9.89%		7.99%	8.61%			8.91%		10.14%		10.81%		10.89%	10.20%		10.43%		
Core ROTCE		8.63%		9.33%		10.63%		9.01%	9.40%			10.62%		12.04%		12.77%		12.81%	12.08%		12.13%		
Efficiency Ratio		72.7%		73.5%		67.6%		70.9%	71.2%			71.7%		68.6%		67.2%		67.0%	68.6%		66.7%		
CAPITAL																							
BV Per Share	1.7%	\$12.41	2.3%	\$12.69	1.7%	\$12.91	7.8%	\$13.93	\$13.93	14.1%	1.2%	\$14.09	1.8%	\$14.35	2.0%	\$14.63	2.0%	\$14.92	\$14.92	7.2%	\$16.08	7.7%	
TBV Per Share	1.9%	\$11.50	2.5%	\$11.79	2.0%	\$12.02	-3.0%	\$11.66	\$11.66	3.4%	1.5%	\$11.84	2.3%	\$12.12	2.5%	\$12.42	2.5%	\$12.73	\$12.73	9.1%			

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.

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 16.0x 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:

Rating Category	Count	Percent	IB Serv./Past 12Mos.	
			Count	Percent
OUTPERFORM	26	38.24%	10	38.46%
MARKET PERFORM	41	60.29%	7	17.07%
UNDERPERFORM	1	1.47%	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 01/17/2018

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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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