

First Community Corporation

MARKET PERFORM

FCCO (NASDAQ)
Price \$18.45
Price target \$20.00
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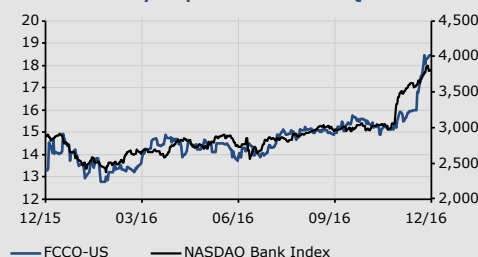
Market Data

Market Cap (\$M)	\$123.6
Price / Tang. Book	1.59x
52-Week Range	\$12.66 - \$18.50
3-Mo. Avg. Daily Volume	7,424
Dividends	\$0.32
Dividend Yield	1.73%
Shares Outstanding (M)	6.7
Institutional Ownership	43.2%
Insider Ownership	7.5%

Financial Summary

As of September 30, 2016

Assets (\$M)	\$915.3
Tangible Book Value	\$11.63
Tang. Common Eq. / Tang. Assets	8.6%
ROA	0.73%
ROE	8.4%
Net Interest Margin	3.29%

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.

Initiating Coverage with a MARKET PERFORM Rating; FCCO - the Leading Community Bank of South Carolina's Midlands Region – Aims to Boost Loans as a Proportion of the Balance Sheet

EPS ESTIMATES

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2016E	\$0.21A	\$0.26A	\$0.24A	\$0.25	\$0.96	6.7%	--	19.2x
2017E	\$0.24	\$0.26	\$0.27	\$0.28	\$1.05	9.4%	--	17.6x
2018E	\$0.26	\$0.28	\$0.30	\$0.31	\$1.15	9.5%	--	16.0x

MARKET PERFORM Rating; \$20.00 Price Target: We are initiating coverage of First Community Corp. (FCCO) with a MARKET PERFORM rating and a \$20.00 price target. Our operating EPS estimates for 2016, 2017, and 2018 are \$0.96, \$1.05, and \$1.15, respectively.

An attractive franchise: FCCO is the leading community bank deposit franchise in South Carolina's Midlands region, complemented by a toehold in the metro Augusta market and an emerging lending presence in Greenville.

Several positives: The company has several positives, including an attractive deposit franchise (noninterest bearing deposits are 23% of total), a low cost-of-funds, a diversified revenue mix (with core fees representing ~25% of total), healthy capital levels (and a long track record at paying a dividend), benign credit quality, and a long-tenured senior mgmt team (with a conservative bent and long-term focus).

Looking to boost loans as a proportion of earning assets: Recent core profitability has been modestly below peer median levels mainly owing to an underutilized balance sheet (with loans/deposits below peer levels), although mgmt is looking to boost the proportion of loans to AEAs, which, coupled with rising ST rates, should bode well for the NIM and core profitability.

Well situated to pursue accretive acquisitions: The company was saddled with a BSA/AML-related Consent Order from early-2015 through early 2016, but with this now fully in the rear view mirror, we suspect that FCCO could opt to become more active on the M&A front.

Stock doesn't appear overly cheap at these levels: With the stock up about 22% since Election Day and now trading at a modest premium to the peer median on both a P/E and a P/TBV basis, we don't view the valuation as overly-compelling here, but we will keep a close watch for a better entry point.

Important Disclosures regarding Price Target Risks, Valuation Methodology, Regulation Analyst Certification, Investment Banking, Ratings Definitions, and any potential conflicts of interest begin on page 12 of this report. Past performance is no guarantee of future results.

Initiating coverage with a MARKET PERFORM rating: We are initiating coverage of First Community Corp. (FCCO) with a MARKET PERFORM rating and establishing a \$20.00 price target and operating EPS estimates for 2016, 2017, and 2018 of \$0.96, \$1.05, and \$1.15, respectively.

FCCO, based in Lexington, SC, has total assets of \$915.3 mil. and a market capitalization of \$123.7 mil. The company, and its wholly-owned bank subsidiary, First Community Bank, operate 16 offices – mostly located in the Midlands region of South Carolina (i.e., four counties in or adjacent to metro Columbia – the state capital), and to a lesser extent, in the MSA of Augusta, GA (just over the border between SC and GA).

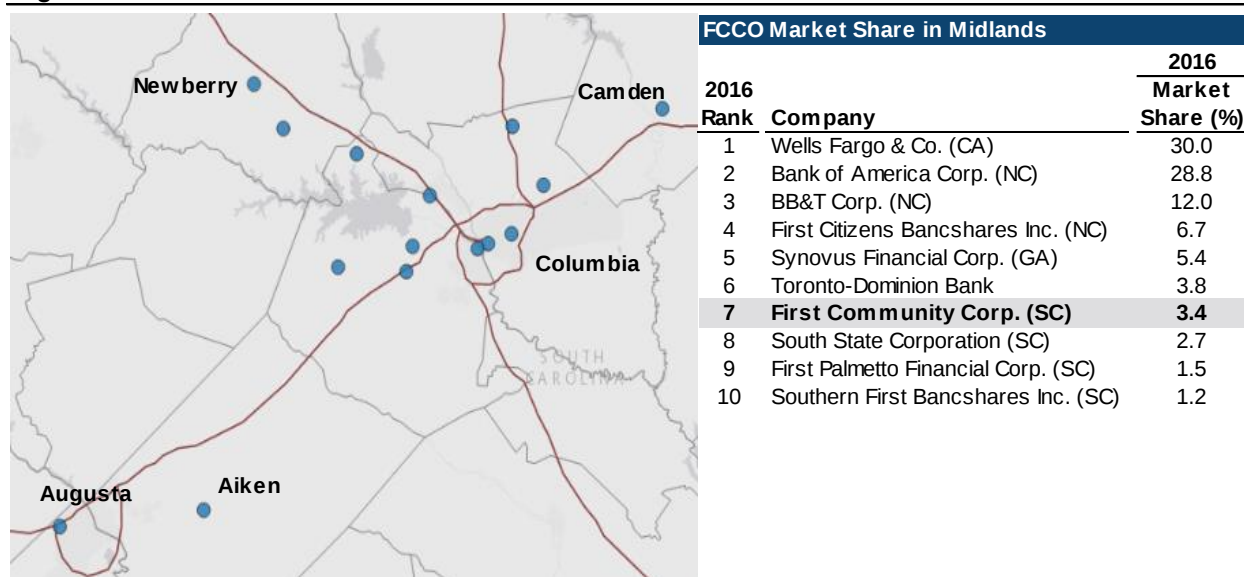
The bank was formed in 1995, with many of the senior team coming from the former Republic National Bank, a Columbia, SC-based community bank that was sold in 1994 by its parent company to legacy-Carolina First Bank (a subsidiary of The South Financial Group – since acquired by Toronto-Dominion Bank in 2010). The company's growth was mainly organic in its first decade, and subsequently complemented by a few bank deals in 2004-2006 (helping to round out the Midlands franchise), a few fee-based deals during the financial downturn (in mortgage and financial planning), and most recently, in 2014, a bank deal providing entry into metro Augusta.

The company is led by CEO Mike Crapps (57) and CFO Joe Sawyer (65), a team that has been a source of continuity, as both have served in their respective roles since the bank's formation over 20 years ago. While mgmt teams often cite a set of underlying core beliefs/values, we get the sense it is much more than lip service at FCCO, as the CEO seems to consistently place emphasis on the company's identity, which FCCO attributes to cultural beliefs driving core values and further driving the strategic plan and vision. This vision, as articulated by the CEO, is for FCCO to be the provider of choice of financial solutions to local businesses and professionals in the markets it serves, and in turn, to optimize the long-term return to the company's shareholders, while providing a safe and sound investment.

Our thesis, in short, is that FCCO is a solid, dependable Southeastern-based banking story that we are very favorably inclined toward on a longer-term horizon. Specifically, we like the geographic franchise (with the foundation in the Midlands of SC, complemented by growth opportunities in metro Augusta and Greenville), the long-tenured senior mgmt team, and the attractive deposit mix (translating to a low cost-of-funds). We also view positively the fact that FCCO has the opportunity to increase its below-peer level loans/deposits ratio, and in turn, the NIM, core profitability, and EPS growth; however, we suspect this will take time to play out. All that said, with the stock up 22% since Election Day, and now trading at a modest premium to the peer median on both a P/E basis and P/TBV basis, we are opting to initially rate the shares MARKET PERFORM. We will watch closely for a better entry point – whether from a pullback in the shares and/or the emergence of additional catalysts for EPS growth. Our \$20 price target assumes that the shares will trade at 17.4x our 2018 EPS est. one year out.

We highlight below a number of investment considerations for FCCO:

The leading locally-based, Midlands, SC, community bank franchise... In its home state of South Carolina, FCCO ranks #16 in deposit market share, or #5 among banks actually headquartered in the state. By MSA, the bulk of the company's presence was in metro Columbia (the state capital), where it ranks #7, or #1 among SC-based banks. Similarly, FCCO ranks #7 (or #1 among SC-based banks) in what is known as the Midlands region of SC; this is comprised of four counties in or adjacent to metro Columbia (specifically, Richland, Lexington, Newberry, and Kershaw counties). Mgmt emphasizes that FCCO is the largest community bank (i.e., locally-based and locally-focused) in the Midlands region, as all banks with higher-ranked deposit market share are mainly out-of-state-based super-regionals.

Figure 1: Branch Network¹


Source: SNL Financial; branch deposits based on FDIC data as of 6/30/2016

¹ Midlands markets include South Carolina counties of Richland, Lexington, Newberry, and Kershaw

...with a smaller, yet emerging presence in Augusta, GA and Greenville, SC: The company also has #12 ranked deposit market share in metro Augusta, GA (~70 miles to the southwest of Columbia - and just over the SC/GA state line). FCCO entered the Augusta market via the 2014 acquisition of Savannah River Financial Corp., and views the market as a complementary extension as Augusta's steady growth nature (with a mix of military, medical, university, etc.) is similar in nature to FCCO's home market in metro Columbia. We suspect that mgmt would look to add 1-2 branches, and additional production personnel, in the market over time.

Separately, what is not necessarily seen on the branch map is that in March 2016, FCCO opened an LPO in Greenville, SC (~100 miles northwest of Columbia) – within the very attractive, healthy-growth Upstate region of the state. The regulatory approval for this LPO had been inherited via the acquisition of Savannah River. The CEO notes that Greenville is more of a pure business lending market, as opposed to more CRE-heavy regions of the state. While mgmt could opt to build a deposit franchise around the new team at some point down the line, for now, we suspect that FCCO is simply focused on growing loans in the market. More broadly, we get the sense that FCCO aims to use its low-cost deposit franchise – mainly based in the Midlands region – to fund an accelerated pace of loan growth in its newer markets of Augusta and Greenville.

Figure 2: Deposit Market Share¹

FCCO Market Share in Augusta, GA MSA				
2016 Rank	Company	# of Branches	2016	Market Share (%)
			Deposits (\$M)	
1	Wells Fargo & Co. (CA)	20	1,691.2	21.2
2	South State Corporation (SC)	12	1,593.4	19.9
3	Bank of America Corp. (NC)	8	860.0	10.8
4	Security Federal Corp. (SC)	11	597.6	7.5
5	SunTrust Banks Inc. (GA)	8	595.6	7.5
6	Regions Financial Corp. (AL)	14	540.7	6.8
7	First Citizens BancShares Inc. (NC)	13	503.1	6.3
8	State Bank Finl Corp. (GA)	7	425.0	5.3
9	Queensborough Co. (GA)	10	383.5	4.8
10	Synovus Financial Corp. (GA)	2	180.3	2.3
11	Fifth Third Bancorp (OH)	3	120.1	1.5
12	First Community Corp. (SC)	2	102.1	1.3
13	First Burke Banking Co. (GA)	3	95.6	1.2
14	Lincoln Bancshares Inc. (GA)	2	77.7	1.0
15	Toronto-Dominion Bank	1	61.6	0.8
Total In Market		1	59.0	

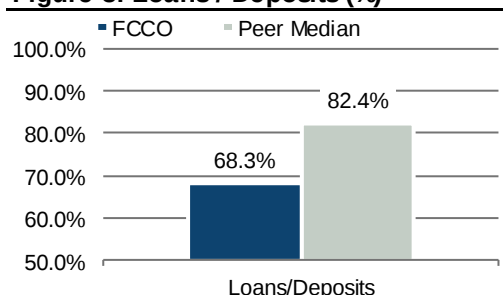
Source: SNL Financial; branch deposits based on FDIC data as of 6/30/2016

¹Deposit market share information includes the pro forma impact of any announced transactions

FCCO aims to positively remix the asset base... FCCO expects to positively re-mix its earnings assets by increasing the proportion of loans. Specifically, mgmt is aiming to increase the proportion of loans to AEAs from a current low-60's % (which is below peer levels) to 80% by 2018, which the CEO believes should add meaningfully to the NIM and NII, and in turn, EPS. Similarly, the company has a lower than peer loans/deposits ratio (68.3% vs. peer median of 82.4%), which likely is a by-product of a fairly modest pace of loan growth over the past few years (likely stemming from an elevated pace of pay-downs and mgmt's conservative bent in underwriting) coupled with a very healthy pace of deposit growth. On top of the high single-digit loan growth FCCO has been demonstrating in recent quarters, we expect the company will look for incremental growth from the build-out in Augusta, as well as the ramp-up in activity for the Greenville LPO. Additionally, one specific loan opportunity mgmt cited was to grow construction permanent loans associated with increased demand for single family housing in FCCO's local markets.

It's also worth noting that with a CRE/RBC ratio of only 210%, it doesn't appear that FCCO's loan growth would be impeded by regulators' 300% CRE concentration threshold; although we get the sense that mgmt is taking a fairly cautious approach to investor-CRE.

Figure 3: Loans / Deposits (%)

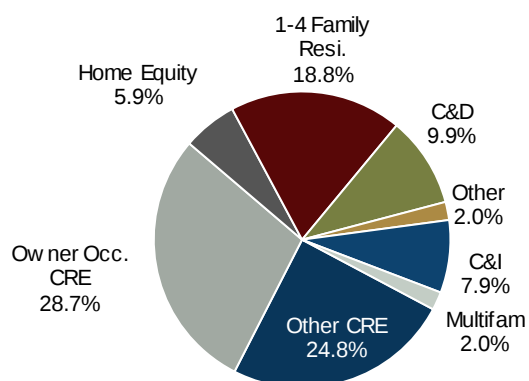


Source: SNL Financial; Data as of Sep 30, 2016

Peer group includes HTBI, ACBI, SNBC, SBFC, HMBH, CARO, PBNC, SFST, CBAN, PEBK, CNBW, CHFN, SFDL, BKSC, HCFB, FSRL, CRLN, LOB, and FCCO

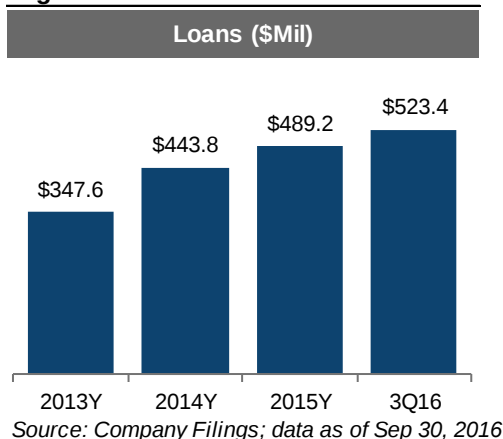
The loan mix has a CRE-bent –with ~56% of loans tied to CRE, but slightly over half of this is owner-occupied CRE (which is viewed more akin to C&I), with most of the remainder in investor-CRE, and only a small component of multi-family. The remainder of the loan book reflects residential mortgage, C&I, construction, home equity, and other consumer. Mgmt acknowledges that the residential mortgage piece appears high, but points out that a portion of this reflects rental properties to individuals, a segment that is viewed by mgmt as more akin to C&I.

Figure 4: 3Q16 Loan Composition



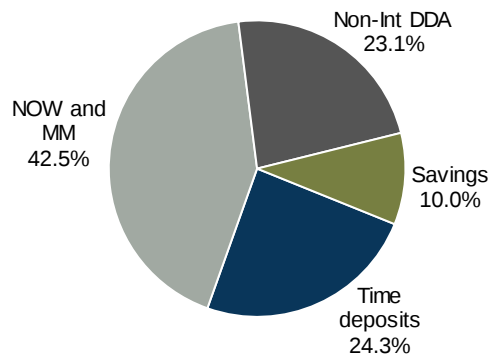
Source: Company Filings; data as of Sep 30, 2016

Figure 5: Loan Growth

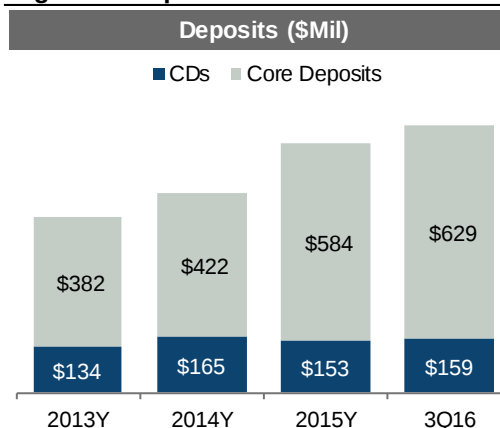


...and should increasingly benefit from its attractive, low-cost deposit franchise: FCCO has what appears to be an excellent deposit franchise, with ~80% of deposits from non-CD accounts, and 23% of deposits in noninterest-bearing accounts, and consequently, a low cost-of-funds – at 0.37% vs. the peer median of 0.62% in 3Q16. Per mgmt, this reflects a deliberate focus on placing more emphasis on low-cost deposits over the past few years. We suspect this solid funding base should only

increase in value amid a rising rate environment. The aforementioned low loans/deposits ratio seems to position FCCO well to fund an increasing base of loans without having to get overly aggressive on deposit pricing, and likely with the implied ability to let more expensive CDs roll off.

Figure 6: 3Q16 Deposit Composition


Source: Company Filings; data as of Sep 30, 2016

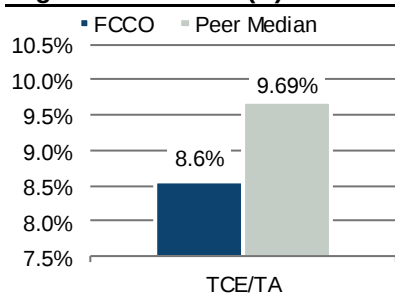
Figure 7: Deposit Growth


Source: Company Filings; data as of Sep 30, 2016

Past regulatory headwinds are now fully in the rear-view mirror... The company was saddled with a Consent Order for BSA/AML issues – mainly stemming from certain compliance personnel departures – that was in place for roughly one year, i.e., from early-2015 through early 2016. This effectively prevented the company from participating in M&A during that time. However, the regulatory issues now appear to be fully in the rear-view mirror as the order was officially lifted in February 2016.

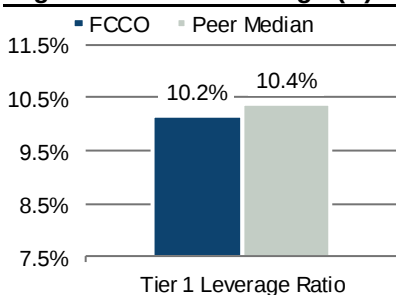
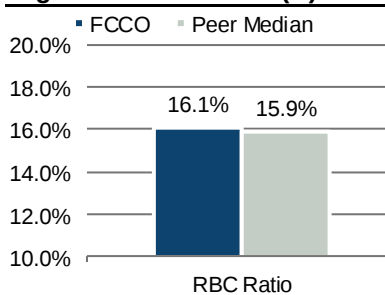
...so the company should be well-positioned to pursue accretive acquisition opportunities: We suspect that FCCO is well-positioned to pursue accretive acquisition opportunities going forward. The company's most recent deal was the 2014 acquisition of Savannah River Financial Corp., based in Augusta, GA. In addition to in-market deals in the core Midlands footprint, we suspect that FCCO's M&A appetite is most focused on opportunities that would provide entry into the Upstate, SC region (i.e., in metro Greenville and Spartanburg - to the northwest of Columbia) and Rock Hill (directly north of Columbia), as well as add on to the existing presence in metro Augusta / Aiken (to the southwest of Columbia). We don't get the sense that mgmt has any interest in entering the coastal S.C. markets anytime soon, but we wouldn't rule this out longer-term.

Healthy capital levels and a consistent dividend: FCCO's regulatory capital ratios appear roughly in line with peer medians, although the TCE/TA ratio comes in a bit below peer median. The company's most recent common offering was for \$15 mil. in July 2012 – priced at \$8.00/sh – with the proceeds used to redeem former TARP. In 3Q16, the company paid a quarterly cash dividend of \$0.08/sh, making it the 59th consecutive quarter of the company paying a cash dividend to common shareholders, implying a dividend yield of 1.7% and a dividend payout (relative to 2017 est. EPS) of 31%.

Figure 8: TCE / TA (%)


Source: SNL Financial; Data as of Sep 30, 2016

Peer group includes HTBI, ACBI, SNBC, SBFC, HMBH, CARO, PBNC, SFST, CBAN, PEBK, CNBW, CHFN, SFDL, BKSC, HCFB, FSRL, CRLN, LOB, and FCCO

Figure 9: Tier 1 Leverage (%)

Figure 10: RBC Ratio (%)


Asset quality looks healthy: Credit quality appears relatively benign, with a negligible pace of NCOs in recent quarters. The ratio of NPAs (to loans plus OREO) is slightly above the peer median, but down substantially from the financial downturn. It appears that FCCO's credit quality held up better than peers during the financial downturn – based on a lower peak in NPAs than the peer median - which mgmt attributes to conservative underwriting, less exposure to A&D, and a deliberate avoidance of bank M&A going into the downturn (as mgmt saw worrisome signs ahead of the downturn). Reserve ratios are modestly below the peer median, and while these ratios have also declined in recent years, we're not expecting further meaningful declines from current levels.

Figure 11: NPAs / Loans + OREO

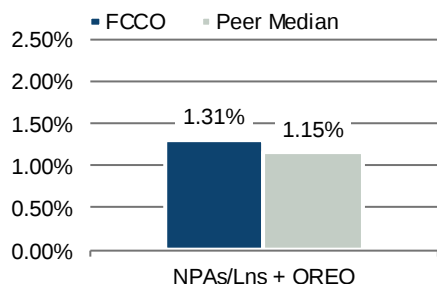


Figure 12: ALLL / Loans

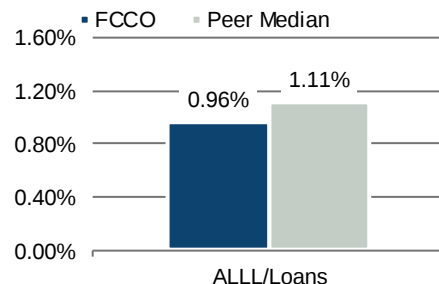
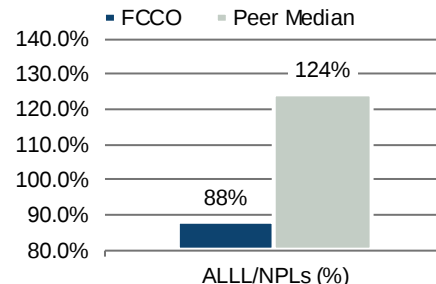


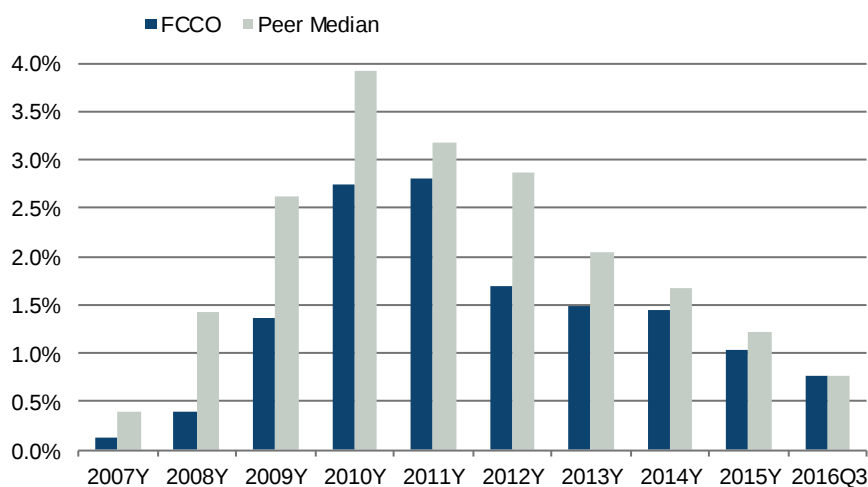
Figure 13: ALLL / NPLs



Source: SNL Financial; Data as of Sep 30, 2016

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Figure 14: Historical NPAs/Assets



Source: SNL Financial, Data as of Sep 30, 2016

Core profitability slightly below peer owing to lower NIM... FCCO's core profitability – based on 3Q16 results – was modestly below the peer median, with a core ROAA and ROTCE of 0.73% and 8.36%, respectively, compared to respective peer medians of 0.88% and 8.70%. The lower core profitability appears to stem mostly from a lower NIM (3.29% vs. 3.58%), and to a lesser extent, a slightly less favorable core efficiency ratio (71.6% vs. 69.8%). The lower NIM is likely a by-product of the AEA mix (i.e., the aforementioned lower loans/deposits ratio, i.e., 68.3% vs. 82.4%) and a lower avg. yield on loans (4.57% vs. 4.86%), partly offset by a lower cost-of-funds (0.37% vs. 0.62%). We suspect that the lower avg. yield on loans vs. peers stems from a combination of: (a) a relatively high proportion of residential mortgages, (b) a lower contribution from accretion income relative to certain peers that have been more active acquirers, and (c) a generally more conservative bent toward underwriting.

Core fee revenues accounted for 25.3% of core revenues in 3Q16, which was well above the peer median of 19.9%, likely stemming from FCCO's presence in the residential mortgage business, and to a lesser extent, the contribution of the financial planning / investment advisory services business. In mortgage, FCCO is targeting annual production of \$200 mil. in 2018. In financial planning / investment advisory services, mgmt is targeting \$300 mil. of AUM in 2018.

...although with likely optimization given an improving AEA mix... FCCO has demonstrated a gradually positive trajectory in core earnings, EPS, and profitability over the past five years, mainly owing to balance sheet growth and a modestly higher NIM. Going forward, mgmt expects to see continued improvement in its core profitability, reflecting the aforementioned positive re-mixing of the AEA mix (i.e., more loans), increased utilization of low-cost deposits (e.g., FCCO prepaid FHLB advances in 3Q16), continued growth in the contribution of core fee revenues (especially mortgage and financial planning), and ongoing good cost control.

...and potential spread benefits from a rising rate, steeper yield curve environment: FCCO views its interest rate positioning as asset sensitive, implying that it expects assets to reprice faster than liabilities – and, in turn to see higher NII – from a rising ST rate environment. Specifically, mgmt estimates – per its NII sensitivity analysis as of 9/30/16 – that a +100 bp and +200 bp change in ST rates would increase NII by 1.26% and 2.12%, respectively, on an annualized basis. We suspect that that FCCO's very attractive, low-cost deposit franchise plays into this asset sensitive position as well.

Figure 15: Profitability vs. Peers'

		2012Y	2013Y	2014Y	2015Y	2016Q3
Core ROAA (%)	FCCO	0.73	0.73	0.71	0.74	0.73
	Peers	0.52	0.54	0.71	0.74	0.88
Core ROTCE (%)	FCCO	8.0	3.5	8.2	9.1	8.4
	Peers	5.8	5.1	8.8	8.3	9.5
NIM (%)	FCCO	3.22	3.14	3.40	3.38	3.29
	Peers	3.44	3.53	3.51	3.54	3.58
Effic. Ratio (%)	FCCO	73.9	74.7	72.6	71.2	71.6
	Peers	71.6	75.5	74.1	70.7	69.1

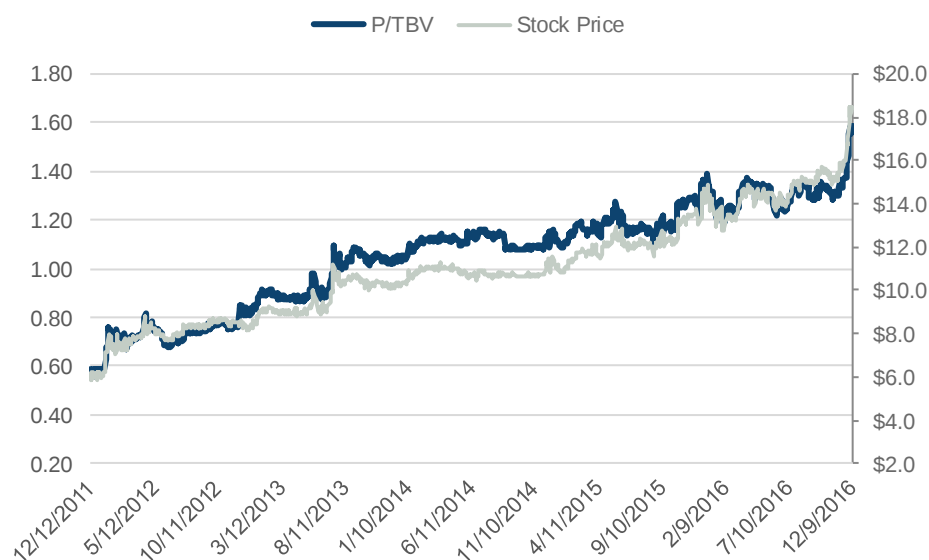
Source: SNL Financial; Data as of Sep 30, 2016

Peer group includes HTBI, ACBI, SNBC, SBFC, HMBH, CARO, PBNC, SFST, CBAN, PEBK, CNBW, CHFN

SFDL, BKSC, HCFB, FSRL, CRLN, LOB, and FCCO

The stock has demonstrated a steady, positive rebound since 2012... Over the long term, the stock saw a sharp increase from early 2002 through early 2004, then saw a gradual downward trend through early-2008, after which – like most banks – it plummeted over the next year with the onset of the financial downturn. After bottoming from early-2009 through the next few years (hitting a low of \$5.00 in Sept. 2010), the stock commenced in early-2012 a steady, positive rebound that has sustained through this year. Like many banks with the post-Election Day rally, FCCO is now at a new 52-week high (and actually at a new 10-year high), but still below its all-time high of \$24.50 from early-2004.

...and has outperformed peers in recent months: Looking at relative performance over the past few years, FCCO's stock performed about in line with peers in 2013 (+24.0% vs. +26.7%), underperformed in 2014 (+8.8% vs. 15.3%), outperformed in 2015 (+31.9% vs. +20.2%), and performed about in line for YTD 2016 (+23.7% vs. +21.8%). We suspect the underperformance in 2014 and the outperformance in 2015 stems – at least partly – to the anticipated timing of the Consent Order on BSA/AML (specifically, the enactment of the order, as well as the subsequent lifting of the order). More recently, though, the stock has outperformed – up 23.4% over the past three months and up 21.8% over the past month (vs. +12.7% and 12.6%, respectively, for the peer median).

Figure 16: Price/Tangible Book vs. Stock Price


Source: SNL Financial; Data as of Dec 12, 2016

The stock trades at a modest premium to peer levels: The stock trades at 159% of TBV/sh, a modest premium to the peer median of 143%. On a P/E basis, the shares trade at 17.6x our 2017 EPS est., a modest premium to the peer median of 17.2x. FCCO says it is focused on growing TBV/sh, and it has expanded TBV/sh by 8.1% YOY as of 9/30/16, although we note that the company trails peer medians on longer-term TBV/sh growth (i.e., over the past 5-years and 10-years). The company has paid a quarterly cash dividend to common shareholders over the past 59 consecutive quarters, and after cutting the dividend in half in 2009 (like we saw from many banks at that time) and then resuming increases in 2013, the dividend is now back to the \$0.08/sh level that it was at in 2009 (before being cut in half). The dividend yield is 1.7%, above the peer median of 1.0%. The institutional ownership is 43%, which is well above the peer median of 26%. The avg. daily trading volume is 7k shares, which while roughly in line with the peer median, strikes us as a relatively light – implying that liquidity may be a challenge for investors with the shares.

Figure 17: FCCO vs. Peers¹

	Valuation					Profitability (%)					Bal. Sheet (%)		Credit Quality (%)				
	Price / EPS (x) ²			Price/ TBV (x)	Div Yld (%)	Core PTPP				Effic. Ratio	Lns/ Deps	TCE/ TA	NPAs/ Lns+REO	Texas Ratio	NCOs/ Avg Lns	Rsrvs/ Lns	Rsrvs/ NPLs
	2016E	2017E	2018E			ROA	ROA	ROTCE	NIM								
FCCO	19.2x	17.6x	16.0x	1.59x	1.7	0.73	0.97	8.4	3.31	71.6	68.3	8.58	1.31	8.5	0.01	0.96	88.2
Peer Median: ¹	19.9x	17.2x	15.0x	1.43x	1.0	0.88	1.30	8.7	3.58	69.1	82.4	9.69	1.15	7.8	0.07	1.11	124.4

¹ Peer group includes HTBI, ACBI, SNBC, SBFC, HMBH, CARO, PBNC, SFST, CBAN, PEBK, CNBW, CHFN, SFDL, BKSC, HCFB, FSRL, CRLN, LOB, and FCCO

² Forward P/E for peer group is based on FactSet consensus estimates

Sources: SNL Financial, FactSet Research Systems, Hovde Group Research; Financial data as of Sep 30, 2016

Increasing scarcity value in a highly consolidated state: The aforementioned statewide deposit market share dynamics demonstrate how consolidated the South Carolina banking market has become in recent years, with the top 5 banks accounting for ~61% of total deposit market share, and, further, that 11 of the top 15 banks (in SC deposit market share) are now headquartered outside of the state. The relevant players range from: (a) the large super-regionals (e.g., WFC, BAC, BBT, TD, RF, STI) that have mostly had their presence in the state for quite some time; (b) certain mid-sized, non-SC-based consolidators (e.g., FCNCA, UCBI, BNCN, PSTB) that have been active with SC-based acquisitions in recent years - and we suspect will most likely remain active going forward; and (c) SSB – the lone SC-based, large player that has been a steady consolidator in the state over the years. Additionally, one mid-sized regional name – IBKC – recently announced a planned expansion into the Upstate SC market with the hiring of the former CEO of legacy Palmetto Bancshares.

Beyond these, FCCO is one of a relatively small group of SC-based, publicly-owned banks comprising the bottom half of the top-20 ranking (also consisting of CARO, SFST, CNBW, and SFDL) – each with relatively modest deposit market share in the state. We think this implies some degree of scarcity value for FCCO, in our view, particularly in a market that has already seen many of its larger, locally-based brethren acquired over the years. And, we suspect that this scarcity value will likely only increase – adding a tailwind to valuation - as FCCO gets incrementally larger and rounds out its franchise, i.e., adding to Augusta and gaining traction in Upstate SC – on top of the current leading position in the Midlands region.

Initiating with a MARKET PERFORM rating and a \$20 price target: We are initiating on the company with a MARKET PERFORM rating. On one hand, we are very favorable to the overall story, including the geographic franchise, a long-tenured senior mgmt team, an attractive deposit mix, and the opportunity to increase the loans/deposits ratio, and in turn, the NIM, core profitability, and EPS growth. However, with the stock up 22% since Election Day, and now trading at a modest premium to the peer median on both a P/E basis and P/TBV basis, we will watch closely for a better entry point – whether from a pullback in the shares and/or the emergence of additional catalysts for EPS growth. Our \$20 price target assumes that the shares will trade at 17.4x our 2018 EPS est. one year out.

Figure 18: Deposit Market Share¹

FCCO Market Share in South Carolina				
2016 Rank	Company	2016		
		# of Branches	Deposits (\$M)	Market Share (%)
1	Wells Fargo & Co. (CA)	147	16,073.6	20.3
2	Bank of America Corp. (NC)	80	11,781.3	14.9
3	BB&T Corp. (NC)	111	7,888.9	10.0
4	First Citizens BancShares Inc. (NC)	147	6,719.1	8.5
5	South State Corporation (SC)	89	5,611.1	7.1
6	Toronto-Dominion Bank	68	3,881.7	4.9
7	Synovus Financial Corp. (GA)	38	3,059.2	3.9
8	SunTrust Banks Inc. (GA)	45	2,928.7	3.7
9	United Community Banks Inc. (GA)	32	1,472.6	1.9
10	Carolina Financial Corp. (SC)	24	1,348.0	1.7
11	BNC Bancorp (NC)	27	1,146.5	1.5
12	Southern First Bancshares Inc (SC)	9	1,053.8	1.3
13	CNB Corp. (SC)	16	875.8	1.1
14	Regions Financial Corp. (AL)	26	867.1	1.1
15	Park Sterling Corporation (NC)	23	731.7	0.9
16	First Community Corp. (SC)	14	666.7	0.8
17	Security Federal Corp. (SC)	14	648.4	0.8
18	Travelers Rest Bancshares Inc. (SC)	10	551.6	0.7
19	First Palmetto Financial Corp. (SC)	23	524.6	0.7
20	Anderson Bancshares Inc. (SC)	20	499.4	0.6
Total In Market		1,283	79,035.5	

Source: SNL Financial; branch deposits based on FDIC data as of 6/30/2016

¹Deposit market share information includes the pro forma impact of any announced transactions

Primary risks to the story include the announcing of a large acquisition that is dilutive to TBV/sh and/or implies considerable integration risk, the announcing of a large, dilutive capital raise, the emergence of unanticipated credit deterioration, NIM compression stemming from heightened deposit pricing competition amid rising ST rates and/or a flattening/inverted yield curve, an economic downturn specific to the company's South Carolina footprint (likely slowing loan growth and pressuring credit quality), and lower bank equity valuations.

Outlook for earnings: Our EPS estimates for 2016, 2017, and 2018 of \$0.96, \$1.05, and \$1.15, respectively, broadly reflect high single-digit to low double digit annl. loan growth, a stable to gradually expanding NIM, a gradually increasing pace of NCOs/loans and provisioning/loans, and low single-digit annl. growth in core fee revenues and core noninterest expenses.

First Community Corporation (FCCO)

	\$0.21		\$0.26		\$0.24		\$0.25		\$0.96		\$0.24		\$0.26		\$0.27		\$0.28		\$1.05		\$1.15			
	1Q16A		2Q16A		3Q16A		4Q16E		2016E		1Q17E		2Q17E		3Q17E		4Q17E		2017E		2018E			
	% Δ	Actual	% Δ	Actual	% Δ	Actual	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ	Est.	% Δ			
NET INTEREST INCOME ASSUMPTIONS																								
Avg Loans	1.0%	492.2	3.5%	509.5	2.1%	520.1	3.0%	535.7		514.4	8.7%	1.8%	545.1	3.0%	561.5	2.3%	574.1	3.0%	591.3		568.0	10.4%	626.9	10.4%
Avg Securities and CDs	1.1%	283.9	-0.5%	282.5	1.4%	286.3	1.0%	289.2		285.5	3.5%	1.0%	292.1	0.0%	292.1	0.0%	292.1	0.0%	292.1		292.1	2.3%	292.1	0.0%
Avg Other Earning Assets	-28.2%	16.0	5.0%	16.8	38.7%	23.3	0.0%	23.3		19.9	8.7%	0.0%	23.3	0.0%	23.3	0.0%	23.3	0.0%	23.3		23.3	17.4%	23.3	0.0%
Average Earning Assets	0.2%	792.1	2.1%	808.7	2.6%	829.8	2.2%	848.2		819.7	6.8%	1.4%	860.5	1.9%	876.8	1.4%	889.5	1.9%	906.7		883.4	7.8%	942.3	6.7%
Average Assets	0.8%	865.5	1.7%	880.4	2.3%	900.9	2.2%	920.9		891.9	6.8%	1.4%	934.3	1.9%	952.0	1.4%	965.7	1.9%	984.4		959.1	7.5%	1,023.1	6.7%
Net Interest Margin		3.33%		3.43%		3.29%		3.30%		3.35%			3.30%		3.31%		3.32%		3.33%		3.32%		3.33%	
CREDIT ASSUMPTIONS																								
Provision / Avg Loans		0.11%		0.17%		0.14%		0.15%		0.14%	1		0.12%		0.15%		0.16%		0.17%		0.15%	1	0.17%	1
Net Charge-Off Ratio		0.04%		0.02%		0.01%		0.03%		0.02%	0		0.03%		0.04%		0.05%		0.06%		0.05%	0	0.07%	0
Reserves / Loans		0.95%		0.97%		0.97%		0.97%		0.97%			0.98%		0.98%		0.98%		0.98%		0.98%		0.99%	
INCOME STATEMENT																								
Net Interest Income	1.5%	6,595	5.2%	6,935	-1.0%	6,867	2.5%	7,036		27,433	5.2%	0.3%	7,060	2.2%	7,216	2.9%	7,423	2.2%	7,590		29,289	6.8%	31,384	7.2%
Loan Loss Provision (Recovery)	-5.4%	140	55.0%	217	-17.5%	179	12.2%	201		737	-35%	-18.6%	164	28.8%	211	9.1%	230	9.4%	251		855	16%	1,052	23%
Deposit service charges	-10.1%	347	-2.0%	340	10.9%	377	3.0%	388		1,452	-1.1%	-3.0%	377	5.0%	395	2.5%	405	3.0%	418		1,595	9.8%	1,711	7.3%
Mortgage banking income	-11.7%	665	37.3%	913	2.6%	937	-4.0%	900		3,415	-0.5%	-7.0%	837	3.0%	862	1.5%	875	-3.0%	848		3,421	0.2%	3,301	-3.5%
Investment advisory fees	-1.0%	291	2.1%	297	-4.7%	283	3.5%	293		1,164	-9.6%	5.0%	308	2.0%	314	1.5%	318	2.0%	325		1,264	8.6%	1,365	8.0%
Other non-interest income	5.5%	724	1.4%	734	-1.1%	726	1.5%	737		2,921	11.7%	1.5%	748	1.5%	759	1.5%	771	1.5%	782		3,060	4.8%	3,248	6.1%
Total Noninterest Income	-4.3%	2,027	12.7%	2,284	1.7%	2,323	-0.2%	2,318		8,952	1.7%	-2.1%	2,269	2.7%	2,330	1.7%	2,369	0.2%	2,373		9,340	4.3%	9,624	3.0%
Operating Revenue	0.0%	8,622	6.9%	9,219	-0.3%	9,190	1.8%	9,354		36,384	4.3%	-0.3%	9,329	2.3%	9,546	2.6%	9,792	1.7%	9,962		38,630	6.2%	41,008	6.2%
Salaries and employee benefits	3.9%	3,751	2.2%	3,833	1.4%	3,888	1.8%	3,956		15,428	6.9%	2.0%	4,035	-1.0%	3,995	1.3%	4,045	1.8%	4,116		16,190	4.9%	16,916	4.5%
Occupancy	-3.3%	559	-8.6%	511	3.9%	531	1.5%	539		2,140	3.1%	1.0%	544	2.0%	555	1.5%	564	1.0%	569		2,232	4.3%	2,358	5.6%
Equipment	3.1%	429	1.9%	437	1.1%	442	1.5%	449		1,757	6.5%	1.5%	455	1.5%	462	1.5%	469	1.5%	476		1,863	6.0%	1,977	6.1%
Marketing & public relations	-43.0%	94	107.4%	195	23.1%	240	2.0%	245		774	-8.8%	-7.0%	228	3.0%	234	2.0%	239	0.0%	239		941	21.5%	946	0.5%
FDIC assessment	0.0%	138	0.0%	138	-56.5%	60	0.0%	60		396	-24.9%	0.0%	60	0.0%	60	0.0%	60	0.0%	60		240	-39.4%	240	0.0%
Amortization of intangibles	-5.7%	83	-3.6%	80	0.0%	80	-2.0%	78		321	-17.0%	-2.0%	77	-2.0%	75	-2.0%	74	-2.0%	72		298	-7.2%	275	-7.8%
Other expense	19.3%	1,237	-9.6%	1,118	9.7%	1,227	-2.0%	1,202		4,784	12.9%	2.0%	1,227	0.0%	1,227	2.0%	1,251	1.5%	1,270		4,974	4.0%	5,252	5.6%
Noninterest expense, ex credit	4.3%	6,291	0.3%	6,312	2.5%	6,468	0.9%	6,529		25,600	6.0%	1.5%	6,626	-0.3%	6,609	1.4%	6,701	1.5%	6,802		26,738	4.4%	27,964	4.6%
OREO expense	-43.3%	51	-58.8%	21	447.6%	115	-25.0%	86		273	-47.9%	-15.0%	73	-5.0%	70	-5.0%	66	-5.0%	63		272	-0.5%	232	-14.8%
Noninterest Expense	3.6%	6,342	-0.1%	6,333	3.9%	6,583	5.0%	6,616		25,874	4.8%	1.3%	6,699	-0.3%	6,678	1.3%	6,768	1.4%	6,865		27,010	4.4%	28,196	4.4%
Pretax Operating Income	-8.9%	2,140	24.7%	2,669	-9.0%	2,428	4.5%	2,537		9,774	7.8%	-2.8%	2,466	7.8%	2,658	5.2%	2,795	1.8%	2,846		10,764	10.1%	11,760	9.2%
Pre-tax, Pre-Provision Operating Income	-8.7%	2,280	26.6%	2,886	-9.7%	2,607	5.0%	2,738		10,511	3.0%	-4.0%	2,630	9.1%	2,868	5.4%	3,024	2.4%	3,097		11,620	10.5%	12,812	10.3%
Pre-tax, Pre Credit Costs Operating Income	-9.9%	2,331	24.7%	2,907	-6.4%	2,722	3.8%	2,824		10,784	0.5%	-4.3%	2,703	8.7%	2,938	5.2%	3,091	2.3%	3,160		11,891	10.3%	13,044	9.7%
Net securities gains		59		64		478		0		601			0		0		0		0		0		0	
Net nonrecurring items		3		(84)		(414)		0		(495)			0		0		0		0		0		0	
Pretax Income	-5.2%	2,202	20.3%	2,649	-5.9%	2,492	1.8%	2,537		9,880	7.1%	-2.8%	2,466	7.8%	2,658	5.2%	2,795	1.8%	2,846		10,764	9.0%	11,760	9.2%
Taxes		734		904		815		856		3,309	6.7%		832		897		943		961		3,633	9.8%	3,969	9.2%
Effective Tax Rate		33.3%		34.1%		32.7%		33.8%		33.5%			33.8%		33.8%		33.8%		33.8%		33.8%		33.8%	
Net Income	-8%	1,468	18.9%	1,745	-3.9%	1,677	0.2%	1,681		6,571	7.2%	-2.8%	1,634	7.8%	1,761	5.2%	1,851	1.8%	1,885		7,131	8.5%	7,791	9.2%
Preferred stock dividends		0		0		0		0		0			0		0		0		0		0		0	
Net Income available to common	-8.3%	1,468	18.9%	1,745	-3.9%	1,677	0.2%	1,681		6,571	7.2%	-2.8%	1,634	7.8%	1,761	5.2%	1,851	1.8%	1,885		7,131	8.5%	7,791	9.2%
Avg Shares Outstanding	0.2%	6,751		6,733		6,762		6,762		6,752	0.7%		6,762		6,762		6,762		6,762		6,762	0.1%	6,762	0.0%
Period End Shares	0.0%	6,693		6,699		6,703		6,703		6,703	0.2%		6,703		6,703		6,703		6,703		6,703	0.0%	6,703	0.0%
Share Repurchases							\$0.00	0		0		\$0.00	0		\$0.00	0		\$0.00	0		0		0	
Shares Issued							0	0		0			0		0		0		0		0		0	
Dividend		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00			\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
Dividend Payout Ratio		0.0%		0.0%		0.0%		0.0%		0.0%			0.0%		0.0%		0.0%		0.0%		0.0%		0.0%	
EPS - Diluted																								
Core EPS	-8.5%	\$0.22	19.2%	\$0.26	-4.3%	\$0.25	0.2%	\$0.25		\$0.98	6.5%	-2.8%	\$0.24	7.8%	\$0.26	5.2%	\$0.27	1.8%	\$0.28		\$1.05	7.1%	\$1.15	9.5%
Core EPS	-12.1%	\$0.21	23.6%	\$0.26	-7.5%	\$0.24	2.9%	\$0.25		\$0.96	6.7%	-2.8%	\$0.24	7.8%	\$0.26	5.2%	\$0.27	1.8%	\$0.28		\$1.05	9.4%	\$1.15	9.5%
PERFORMANCE RATIOS																								
Core ROAA		0.66%		0.80%		0.73%		0.73%		0.73%			0.70%		0.74%		0.77%		0.77%		0.74%		0.76%	
Pre-tax, Pre-provision ROAA		1.05%		1.31%		1.16%		1.19%		1.18%			1.13%		1.21%		1.25%		1.26%		1.21%		1.25%	
Core ROAE		7.10%		8.55%		7.74%		7.91%		7.83%			7.54%		7.97%		8.21%		8.19%		7.98%		8.05%	
Core ROTCE		7.72%		9.26%		8.36%		8.53%		8.47%			8.11%		8.55%		8.79%		8.75%		8.56%		8.55%	
Efficiency Ratio		73.6%		68.7%		71.6%		70.7%		71.1%			71.8%		70.0%		69.1%		68.9%		69.9%		68.8%	
CAPITAL																								
BV Per Share	3.2%	\$12.19	3.1%	\$12.57	-0.1%	\$12.56	2.0%	\$12.81		\$12.81	8.5%	1.9%	\$13.06	2.0%	\$13.32	2.1%	\$13.60	2.1%	\$13.88		\$13.88	8.3%	\$15.04	8.4%
TBV Per Share	3.7%	\$11.24	3.4%	\$11.62	0.0%	\$11.63	2.3%	\$11.89		\$11.89	9.7%	2.2%	\$12.15	2.3%	\$12.42	2.3%	\$12.71	2.3%	\$13.00		\$13.00	9.3%	\$14.21	

Glossary of Terminology

Abbreviation	Full Name	Abbreviation	Full Name
AOCI	Accumulated Other Comprehensive Income	MSA	Metropolitan Statistical Area
ALLL	Allowance for Loan Losses	MBS	Mortgage Backed Security
AFS	Available for Sale	MSR	Mortgage Servicing Rights
AEA	Average Earning Assets	MRQ	Most Recent Quarter
BOLI	Bank Owned Life Insurance	NCO	Net Charge-off
BSA/AML	Bank Secrecy Act/Anti Money Laundering	NII	Net Interest Income
BPS	Basis Points	NIM	Net Interest Margin
CD	Certificate of Deposit	NPA	Nonperforming Asset
C&I	Commercial and Industrial	NPL	Nonperforming Loans
CRE	Commercial Real Estate	NM	Not Meaningful
COF	Cost of Funds	OREO	Other Real Estate Owned
DTA	Deferred Tax Asset	PPNR	Pre-Provision Net Revenue
DFAST	Dodd-Frank Act Stress Testing	PTPCC	Pre-Tax, Pre-Credit Costs
EPS	Earnings per Share	P/E	Price-to-Earnings
EOP	End of Period	P/TBV	Price-to-Tangible Book Value
FDIC	Federal Deposit Insurane Corporation	PE	Private Equity
FHLB	Federal Home Loan Bank	PLS	Private Label Securitization
GSE	Government-Sponsored Enterprise	ROAA	Return on Average Assets
HFI	Held for Investment	ROAE	Return on Average Equity
HFS	Held for Sale	ROTCE	Return on Average Tangible Common Equity
HELOC	Home Equity Line of Credit	SNC	Shared National Credits
IA	Indemnification Asset	SBA	Small Business Administration
LTM	Last Twelve Months	SBLF	Small Business Lending Fund
LQ	Linked Quarter	TA	Tangible Assets
LQA	Linked Quarter Annualized	TBV	Tangible Book Value
LLP	Loan Loss Provision	TCE	Tangible Common Equity
LLR	Loan Loss Reserves	TARP	Troubled Asset Relief Program
MOE	Merger of Equals	TDR	Troubled Debt Restructuring
M&A	Mergers & Acquisitions	YTD	Year To Date

IMPORTANT DISCLOSURES:

Regulation Analyst Certification

I, Kevin Fitzsimmons, 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 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 currently makes a market and/or will sell to or buy from customers on a principal basis, the securities of BNC Bancorp (BNCN), Carolina Financial Corporation (CARO), IBERIABANK Corporation (IBKC), Park Sterling Corporation (PSTB), Southern First Bancshares, Inc. (SFST), and United Community Banks, Inc. (UCBI). Hovde Group currently provides research coverage on BNCN, IBKC, PSTB and UCBI. For latest report on these companies, click the following links: [BNCN](#), [IBKC](#), [PSTB](#) and [UCBI](#).

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) the announcing of a large, dilutive capital raise, (c) the emergence of unanticipated credit deterioration, (d) NIM compression stemming from heightened deposit pricing competition amid rising ST rates and/or a flattening/inverted yield curve, (e) an economic downturn specific to the company's South Carolina footprint (likely slowing loan growth and pressuring credit quality), and (f) 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 \$20.00 assumes the shares of First Community Corp. (FCCO) will trade at 17.4x our 2018 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	17	26.56%	4	23.53%
MARKET PERFORM	43	67.19%	7	16.28%
UNDERPERFORM	4	6.25%	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 12/13/2016

powered by: BlueMatrix



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