

First Community Corp.

Outperform
FCCO (NASDAQ)
Price \$19.29
Price Target \$23.00

David Bishop, CFA
(443) 610-7379
dbishop@hovdegroup.com

Financial Summary

As of September 30, 2023

Assets (\$M)	\$1,794
Tangible Book Value	\$14.25
Tang. Common Eq. / Tang. Assets	6.1%
ROA	0.61%
ROE	5.6%
Net Interest Margin	2.96%

Market Data

Market Cap (\$M)	\$147
Price / Tang. Book	1.35x
52-Week Range	\$16.30 - \$22.25
3-Mo. Avg. Daily Volume	11,807
Dividends	\$0.56
Dividend Yield	2.90%
Shares Outstanding (M)	7.6

Price Performance



Company Description

First Community Corporation is the holding company for First Community Bank, a community bank based headquartered in Lexington, SC and operates in the Midlands, Aiken, and Greenville, South Carolina markets as well as Augusta, Georgia.

A Smallcap Bank to Consider in Holiday Shopping Season; Reiterating OP Rating on Higher Price Target

EPS ESTIMATES

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2023E	\$0.45A	\$0.41A	\$0.35A	\$0.37	\$1.58	(17.8%)	--	12.2x
2024E	\$0.36	\$0.40	\$0.44	\$0.47	\$1.67	5.5%	--	11.6x
2025E	\$0.42	\$0.47	\$0.49	\$0.53	\$1.91	14.5%	--	10.1x

Conclusion

Following a recent conversation with executive management at First Community, we are reiterating our Outperform rating and raising our Price Target to \$23 equating to 12x our newly established \$1.91 EPS estimate for 2025 (no change to our 2023/24 EPS estimates) and 127% of 2025 TBVE. While near-term profitability likely remains under modest pressure via a compressing NIM, we still like the bank's position in a vibrant South Carolina economy and believe fundamental headwinds should be cresting in the near-term. We do envision the potential for material NIM improvement with the lagging benefit of loan repricing as we remind investors that FCCO ranked lowest in terms of Assets repricing in the next year in an Industry report published just over a year ago (see [link](#)) at only 10.1% (Hovde Group coverage universe group median was 25.0%).

- **Loan Growth Outlook Remains Positive.** Management continues to forecast relatively healthy loan growth in 2023 (we model 14%) as the legacy South Carolina market the bank serves continue to witness economic resilience and YTD growth has been impressive, in our view. While the overall pipeline has slowed somewhat in line with expectations, management notes that Construction loan opportunities remain within its core markets and should result in additional fundings into 2024. It appears that the bank does not face losing permanent CRE funding opportunities to the agencies as other depositories we cover have noted (possibly due to lower average loan balances) and management notes lending opportunities as certain peers are slowing growth or pricing out solid commercial client relationships due to funding constraints (i.e., Loan-to-Deposit ratios at or above 100%).
- **Still Forecasting Modest NIM Compression.** Similar to most bank management teams we have caught up with intra-quarter, FCCO is still seeing some mix shift from Non-Interest Bearing to Interest Bearing which likely weights on the near-term NIM outlook. That said, overall market rates for deposit funding have stabilized and management notes a decline in wholesale funding costs within the FHLB/brokered avenues. This is expected to benefit the margin all else equal in terms of future funding of loan growth. The bank should continue to benefit into 2024 and beyond from its mostly fixed rate CRE loan portfolio repricing into the 7.5%+ yield range and beyond from an average in the mid-5% range. Thus, we believe the bank is positioned to experience margin expansion when funding costs stabilize as the company does note loan pricing has risen to the 7% range and bolstering earning asset yields. We note that Average Earning Asset yields have risen only 116bps on a YOY basis (Loan yields up 87bps over the past year) compared to a 150bps increase in cost of Funding (includes DDAs).

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.

- **Asset Quality Holding in Fine.** Management of FCCO notes it is not seeing anything on the credit horizon that is giving it pause with a very granular loan review and frequent credit committee meetings showing little in the way to credit stress. The company recently undertook an extensive review of the CRE portfolio where it examined any CRE loans maturing in the next two years and stressed it at both a higher interest rate and stressing Net Operating Income declining 10%-20%. Based on that analysis the company determined just 4 loans fell below 1x DSC after this exercise and all had strong guarantor support that gives the company comfort in lowering potential NPA/loss content related to these credits. Based on recent disclosures, FCCO has only 4 office loans greater than 50K sq feet (\$10.4M total or 1.0% of EOP loans) and LTV is extremely low at ~33%. We continue to forecast relatively modest level of NCOs in 2024 and now 2025 at 4bps and 6bps, respectively.

First Community Corporation (FCCO)

David Bishop; 443-610-7379

Summary Model																									
(SM)	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23A	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	2021A	2022A	2023E	2024E	2025E
Income Statement																									
Net Interest Income	10.7	11.2	12.6	11.3	10.9	11.2	12.9	13.5	12.5	12.2	12.2	12.4	12.2	12.6	13.1	13.6	13.4	13.9	14.3	14.7	45.8	48.5	49.2	51.5	56.3
Noninterest Income	3.1	3.4	3.5	3.5	3.4	3.0	2.7	2.5	2.6	2.8	3.1	3.0	2.9	3.2	3.2	3.3	3.1	3.4	3.5	3.5	13.5	11.6	11.5	12.5	13.5
Total Revenue	13.8	14.6	16.1	14.8	14.2	14.2	15.6	16.0	15.0	15.0	15.2	15.4	15.1	15.8	16.4	16.8	16.5	17.3	17.8	18.2	59.3	60.1	60.7	64.0	69.8
Noninterest Expense	9.5	9.7	10.1	9.9	10.0	10.2	10.4	10.7	10.4	10.8	11.3	11.4	11.2	11.5	11.6	11.8	11.8	12.1	12.3	12.5	39.2	41.3	43.8	46.0	48.8
Pre-tax, Pre-provision Income	4.3	4.9	6.0	4.9	4.3	4.0	5.2	5.3	4.6	4.3	4.0	4.0	3.9	4.3	4.7	5.0	4.7	5.2	5.5	5.7	20.1	18.8	16.9	18.0	21.0
Loan Loss Provision	0.2	0.2	0.0	(0.1)	(0.1)	(0.1)	0.0	0.0	0.1	0.2	0.5	0.4	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.5	0.3	(0.2)	0.9	1.5	2.1
Taxable Equivalent Adjustment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	-	-	-	-	-	-	-	-	0.5	-	-	-	-
Pre-tax Earnings	4.3	4.6	6.2	5.1	4.4	4.1	5.2	5.3	4.5	4.3	2.3	3.6	3.6	4.0	4.3	4.6	4.2	4.7	4.8	5.2	20.1	18.9	15.0	16.5	18.9
Taxes	1.0	1.0	1.4	1.2	0.9	0.9	1.2	1.2	1.1	1.0	0.5	0.8	0.8	0.9	1.0	1.1	1.0	1.1	1.1	1.2	4.7	4.3	3.4	3.8	4.4
Tax Rate (%)	21%	21%	22%	21%	18%	21%	21%	22%	22%	22%	21%	23%	23%	23%	23%	23%	23%	23%	23%	23%	21%	23%	23%	23%	23%
Preferred Dividends																									
Net Income Avail. to Common	3.3	3.5	4.7	3.9	3.5	3.1	4.0	4.0	3.5	3.3	1.8	2.8	2.8	3.1	3.3	3.5	3.2	3.6	3.7	4.0	15.5	14.6	11.6	12.7	14.5
Reported EPS	\$ 0.43	\$ 0.47	\$ 0.63	\$ 0.52	\$ 0.46	\$ 0.41	\$ 0.52	\$ 0.53	\$ 0.45	\$ 0.43	\$ 0.23	\$ 0.37	\$ 0.36	\$ 0.40	\$ 0.44	\$ 0.47	\$ 0.42	\$ 0.47	\$ 0.49	\$ 0.53	\$ 2.05	\$ 1.92	\$ 1.48	\$ 1.67	\$ 1.91
Core EPS	\$ 0.41	\$ 0.49	\$ 0.61	\$ 0.51	\$ 0.46	\$ 0.42	\$ 0.52	\$ 0.53	\$ 0.45	\$ 0.41	\$ 0.35	\$ 0.37	\$ 0.36	\$ 0.40	\$ 0.44	\$ 0.47	\$ 0.42	\$ 0.47	\$ 0.49	\$ 0.53	\$ 2.02	\$ 1.92	\$ 1.58	\$ 1.67	\$ 1.91
Average Diluted Shares	7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.7	7.7	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.5	7.6	7.6	7.6	7.6
Period-end Shares	7.5	7.5	7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.5	7.6	7.6	7.6	7.6
Book Value Per Share	\$ 17.63	\$ 18.29	\$ 18.44	\$ 18.68	\$ 16.59	\$ 15.54	\$ 15.07	\$ 15.62	\$ 16.29	\$ 16.35	\$ 16.26	\$ 16.49	\$ 16.72	\$ 16.98	\$ 17.27	\$ 17.60	\$ 17.88	\$ 18.21	\$ 18.56	\$ 18.95	\$ 18.68	\$ 15.62	\$ 16.49	\$ 17.60	\$ 18.95
Tangible Book Value Per Share	\$ 15.55	\$ 16.22	\$ 16.37	\$ 16.62	\$ 14.53	\$ 13.50	\$ 13.03	\$ 13.59	\$ 14.26	\$ 14.33	\$ 14.25	\$ 14.61	\$ 14.97	\$ 15.36	\$ 15.79	\$ 16.25	\$ 16.66	\$ 17.13	\$ 17.60	\$ 18.12	\$ 16.62	\$ 13.59	\$ 14.61	\$ 16.25	\$ 18.12
Dividend Per Share	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.49	\$ 0.53	\$ 0.56	\$ 0.56	\$ 0.56
Performance Ratios																									
ROA	0.87%	0.98%	1.19%	0.96%	0.86%	0.77%	0.95%	0.96%	0.82%	0.73%	0.61%	0.62%	0.61%	0.67%	0.72%	0.76%	0.68%	0.76%	0.76%	0.82%	1.00%	0.89%	0.71%	0.69%	0.76%
ROCE	9.7%	10.5%	13.4%	11.1%	10.3%	10.8%	13.2%	13.9%	11.7%	10.7%	5.6%	8.9%	8.9%	9.6%	10.1%	10.6%	9.6%	10.6%	10.5%	11.2%	11.2%	12.0%	9.4%	9.8%	10.5%
ROTCE	11.0%	11.9%	15.1%	12.5%	11.6%	12.5%	15.1%	16.0%	13.4%	12.3%	6.3%	10.1%	10.0%	10.7%	11.1%	11.5%	10.3%	11.3%	11.1%	11.8%	12.7%	13.7%	10.7%	10.8%	11.1%
Pretax Preprovision ROAA	1.19%	1.31%	1.56%	1.24%	1.06%	0.98%	1.24%	1.27%	1.08%	0.99%	0.91%	0.90%	0.87%	0.94%	1.02%	1.08%	0.99%	1.09%	1.13%	1.17%	1.33%	1.14%	0.97%	0.98%	1.09%
Net Interest Margin	3.23%	3.20%	3.47%	3.01%	2.91%	2.93%	3.29%	3.42%	3.19%	3.02%	2.96%	2.93%	2.93%	2.96%	3.02%	3.09%	3.10%	3.12%	3.14%	3.18%	3.23%	3.14%	3.02%	3.00%	3.14%
Efficiency Ratio	69%	66%	63%	67%	70%	72%	67%	67%	69%	72%	74%	74%	74%	73%	71%	70%	72%	70%	69%	69%	66%	69%	72%	72%	70%
Fee Income/Operating Revenue	23%	23%	22%	24%	24%	21%	17%	16%	17%	19%	20%	19%	19%	20%	20%	19%	19%	20%	20%	19%	23%	19%	19%	20%	19%
Dividend Payout Ratio	28%	26%	19%	25%	28%	32%	25%	26%	31%	32%	61%	38%	38%	35%	32%	30%	33%	29%	29%	26%	24%	28%	38%	34%	29%
Average Balance Sheet																									
Loans	886	896	894	880	876	897	938	969	987	1,017	1,066	1,104	1,127	1,148	1,169	1,192	1,213	1,236	1,265	1,292	889	920	1,043	1,159	1,251
Securities	373	431	489	532	572	560	581	569	565	563	533	504	503	505	507	507	509	511	513	513	456	571	541	506	511
Earning Assets	1,339	1,404	1,441	1,491	1,515	1,530	1,557	1,563	1,582	1,622	1,628	1,679	1,691	1,706	1,723	1,741	1,758	1,781	1,807	1,832	1,419	1,541	1,628	1,715	1,795
Assets	1,435	1,508	1,543	1,594	1,622	1,644	1,668	1,677	1,696	1,737	1,745	1,798	1,810	1,826	1,845	1,864	1,883	1,907	1,935	1,962	1,520	1,653	1,744	1,836	1,921
Deposits	1,208	1,285	1,313	1,363	1,375	1,428	1,450	1,417	1,382	1,409	1,433	1,514	1,552	1,581	1,609	1,638	1,661	1,685	1,716	1,752	1,292	1,417	1,434	1,595	1,704
Borrowings	78	75	78	77	98	87	87	131	180	189	171	163	145	147	149	151	154	156	158	161	77	101	176	148	157
Common Equity	136	135	140	140	137	116	119	115	120	124	125	124	126	128	130	133	135	137	140	143	138	122	123	129	139
Balance Sheet Ratios																									
TCE Ratio	7.92%	8.16%	8.00%	8.00%	6.71%	6.12%	6.03%	6.21%	6.29%	6.31%	6.09%	6.21%	6.30%	6.41%	6.50%	6.63%	6.72%	6.81%	6.89%	7.00%	8.00%	6.21%	6.21%	6.63%	7.00%
Avg Loans/Avg Earning Assets	66%	64%	62%	59%	58%	59%	60%	62%	62%	63%	65%	66%	67%	67%	68%	68%	69%	69%	70%	71%	63%	60%	64%	68%	70%
Avg Loans/Avg Deposits	73%	70%	68%	65%	64%	63%	65%	68%	71%	72%	74%	73%	73%	73%	73%	73%	73%	73%	74%	74%	69%	65%	73%	73%	73%
Avg Earning Assets/Avg Assets	93%	93%	93%	94%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%
Credit Quality Ratios																									
Reserve/Loans	1.21%	1.21%	1.25%	1.29%	1.26%	1.22%	1.19%	1.16%	1.15%	1.12%	1.08%	1.09%	1.09%	1.09%	1.10%	1.10%	1.11%	1.11%	1.12%	1.12%	1.29%	1.16%	1.09%	1.10%	1.12%
Reserve/NPLs	175%	110%	601%	660%	645%	251%	226%	227%	271%	6925%	8151%	-	-	-	-	-	-	-	-	-	660%	227%	-	-	-
NPLs/Loans+OREO	0.82%	1.23%	0.34%	0.33%	0.33%	0.60%	0.63%	0.60%	0.52%	0.11%	0.07%	-	-	-	-	-	-	-	-	-	0.33%	0.60%	-	-	-
Net Charge-Off Ratio	0.00%	0.04%	-0.15%	-0.10%	0.00%	-0.10%	-0.03%	0.00%	-0.01%	0.00%	0.00%	0.02%	0.03%	0.03%	0.04%	0.04%	0.05%	0.06%	0.06%	0.06%	-0.05%	-0.03%	0.00%	0.04%	0.06%
Provision/Average Loans	0.08%	0.08%	0.02%	-0.03%	-0.06%	-0.03%	0.01%	0.01%	0.03%	0.06%	0.09%	0.15%	0.11%	0.11%	0.14%	0.14%	0.16%	0.16%	0.20%	0.15%	0.04%	-0.02%	0.09%	0.13%	0.17%
Provision/NCOs	2213%	181%	-14%	28%	1563%	31%	-23%	625%	-467%	1540%	#DIV/0!	0%	0%	0%	0%	0%	0%	0%	0%	0%	-74%	49%	1759%	360%	291%

Sources: Company Filings, Hovde Group.

Model updated as of: 12/12/23

IMPORTANT DISCLOSURES:

Regulation Analyst Certification

I, David Bishop, 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.

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) worsening economic conditions and credit losses beyond what we are currently expecting.

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 \$23.00 is based on ~12x our 2025 EPS estimate.

Definition of Investment Ratings:

Outperform (OP): Anticipated to outperform relative to the sector indices over the next 12 months.

Market Perform (MP): Anticipated to perform in line relative to the sector indices over the next 12 months.

Underperform (UP): Anticipated to underperform relative to the sector indices over the next 12 months.

Ratings Distribution:

Rating Category	Count	Percent	IB Serv./Past 12Mos.	
			Count	Percent
Outperform	62	55.36%	9	14.52%
Market Perform	50	44.64%	11	22.00%
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.

First Community Corporation Rating History as of 12/11/2023

powered by: BlueMatrix



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST: Contact the Hovde Research Department at 1-855-559-6831, or write to 1629 Colonial Parkway Inverness, IL 60067.

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:

This report has been prepared and issued by Hovde Group, LLC. The information contained in this report (except information regarding Hovde Group, LLC) was obtained from various sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Additional information is available upon request. The information, opinions or recommendations contained in this report speak only as of the date of this report and are subject to change without notice.

This report does not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including the securities of companies mentioned in this report. This report has been prepared and circulated for general information only and does not take into account the financial position or particular needs or investment objectives of any individual or entity. The securities or strategies discussed in this report may not be suitable for all investors. Investors must make their own determination of the appropriateness of an investment in any securities based on the legal, tax and accounting considerations applicable to such investors and their own investment strategy. Investors are cautioned that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance.

Hovde Group, LLC generally prohibits research analysts and members of their households from maintaining a financial interest in securities or options of any company that the analyst covers. This report or any portion thereof may not be reproduced or redistributed by any person for any purpose without the written consent of Hovde Group, LLC.

© Copyright 2023 Hovde Group, LLC. All rights reserved.