

First Community Corp.

Outperform
FCCO (NASDAQ)
Price \$17.40
Price Target \$22.00

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Financial Summary

As of June 30, 2023

Assets (\$M)	\$1,741.0
Tangible Book Value	\$14.33
Tang. Common Eq. / Tang. Assets	6.3%
ROA	0.73%
ROE	10.7%
Net Interest Margin	3.02%

Market Data

Market Cap (\$M)	\$132.1
Price / Tang. Book	1.21x
52-Week Range	\$16.30 - \$22.25
3-Mo. Avg. Daily Volume	30,328
Dividends	\$0.56
Dividend Yield	3.22%
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.

Adjusting Ests/ PT But Continue to Like Positioning of FCCO; Reiterate OP Rating

EPS ESTIMATES

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2022A	\$0.46	\$0.42	\$0.52	\$0.53	\$1.92	(4.5%)	--	9.0x
2023E	\$0.45A	\$0.41A	\$0.37	\$0.38	\$1.62	(16.0%)	\$-0.11	10.8x
2024E	\$0.37	\$0.45	\$0.46	\$0.48	\$1.75	8.6%	\$-0.08	9.9x

Conclusion

Following a recent conversation with executive management at First Community we are adjusting our EPS estimates to incorporate a more conservative NIM forecast than previously modeled (see below). Given the negative impact of this adjustment, we are adjusting our 2023/24 EPS estimates to \$1.62 (-\$0.11) and \$1.75 (-\$0.08), respectively, and lower our Price Target to \$22 equating to ~1.46x 2023E TBV (modest premium to current valuation). While near-term profitability remains under pressure, we still like the bank's position in a vibrant South Carolina economy and believe fundamental headwinds may be cresting this quarter. Reiterate Outperform rating.

- **Loan Growth Should Be Buoyed by Resilient SC Economy.** Management continues to stick with guidance for relatively healthy loan growth in 2023 (we model 9%) as the legacy South Carolina and newer Rock Hill market it serves are continuing to witness economic resilience. Local economies such as Greenville, SC, are buoyed by a large auto manufacturer presence (and related suppliers) that appear to be shielded from some of the issues related to the UAW strike given the South largely has avoided union-based workforce. The Columbia, SC, market is also supported by the large governmental presence given the state capitol. Thus far, commentary suggests the underlying markets served by FCCO are largely avoiding most of the national narrative related to a slowing economy. Cash flows from securities is projected at \$28M over the rest of the year with management noting it could tap FHLB advances or brokered CDs (hasn't to date) to fund loan growth if there is any shortfall in core deposit growth followed by another \$83M next year in cash flows.
- **Revising NIM Outlook Lower.** While we had surmised the NIM could benefit from asset repricing overcoming the rise in funding costs (marginal cost ~5%), it appears we were too optimistic in our timing of a turn in the NIM. As such, management notes that some level of NIM compression is expected in 3Q23 (we had modeled a few bps of expansion) and we adjust our 2023 NIM estimate to 3.03% (-6bps) as our 3Q23 estimate falls 13bps to 2.95% and our 2024 NIM estimate declines 5bps to 3.06%. With about 30% of the loan portfolio floating (inclusive of loan hedges entered into last quarter), 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.
- **TBV Remains Understated Due to AOCI - Management Open to Restructuring.** FCCO's TCE ratio held at 6.3% during the second quarter, but we note that TBV remains understated with the inclusion of AOCI adjustments. Specifically, TBV rose to \$14.33/sh. (+\$0.07) and adjusted TBV excluding the AOCI adjusts to \$18.48/sh - implying the shares trade at

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a modest discount to TBV (~0.94x adjusted). Management is cognizant of the potential earnings and capital benefit from repositioning the Securities portfolio and would either pay-down borrowings or reinvest in loans yielding better returns. Any securities restructuring would be done on an incremental basis and not done at a level that threatened profitability for a given quarter

First Community Corporation (FCCO)

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Summary Model

(\$M)	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23A	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2020A	2021A	2022A	2023E	2024E
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	12.1	12.2	12.2	12.7	13.2	13.5	40.4	45.8	48.5	49.0	51.6
Noninterest Income	3.1	3.4	3.5	3.5	3.4	3.0	2.7	2.5	2.6	2.8	2.9	2.9	2.9	3.2	3.3	3.3	13.2	13.5	11.6	11.2	12.6
Total Revenue	13.8	14.6	16.1	14.8	14.2	14.2	15.6	16.0	15.0	15.0	15.0	15.0	15.1	16.0	16.4	16.8	53.6	59.3	60.1	60.1	64.3
Noninterest Expense	9.5	9.7	10.1	9.9	10.0	10.2	10.4	10.7	10.4	10.8	11.0	11.0	11.0	11.3	11.5	11.6	37.5	39.2	41.3	43.2	45.4
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	4.0	4.7	4.9	5.2	16.1	20.1	18.8	17.0	18.8
Loan Loss Provision	0.2	0.2	0.0	(0.1)	(0.1)	(0.1)	0.0	0.0	0.1	0.2	0.4	0.3	0.4	0.2	0.4	0.4	3.7	0.3	(0.2)	0.9	1.4
Taxable Equivalent Adjustment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	-	-	-	-	-	0.4	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	3.7	3.7	3.6	4.4	4.6	4.8	13.0	20.1	18.9	16.3	17.4
Taxes	1.0	1.0	1.4	1.2	0.9	0.9	1.2	1.2	1.1	1.0	0.8	0.9	0.8	1.0	1.1	1.1	2.9	4.7	4.3	3.8	4.0
Tax Rate (%)	21%	21%	22%	21%	18%	21%	21%	22%	22%	22%	23%	23%	23%	23%	23%	23%	20%	21%	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	2.8	2.9	2.8	3.4	3.5	3.7	10.1	15.5	14.6	12.5	13.3
Reported EPS	\$ 0.43	\$ 0.47	\$ 0.63	\$ 0.52	\$ 0.46	\$ 0.41	\$ 0.52	\$ 0.53	\$ 0.45	\$ 0.43	\$ 0.37	\$ 0.38	\$ 0.37	\$ 0.45	\$ 0.46	\$ 0.48	\$ 1.35	\$ 2.05	\$ 1.92	\$ 1.64	\$ 1.75
Core EPS	\$ 0.41	\$ 0.49	\$ 0.61	\$ 0.51	\$ 0.46	\$ 0.42	\$ 0.52	\$ 0.53	\$ 0.45	\$ 0.41	\$ 0.37	\$ 0.38	\$ 0.37	\$ 0.45	\$ 0.46	\$ 0.48	\$ 1.29	\$ 2.02	\$ 1.92	\$ 1.62	\$ 1.75
Average Diluted Shares	7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.7	7.6	7.6	7.6	7.6	7.6	7.6	7.5	7.5	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	7.5	7.5	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	\$ 16.58	\$ 16.82	\$ 17.04	\$ 17.35	\$ 17.67	\$ 18.01	\$ 18.18	\$ 18.68	\$ 15.62	\$ 16.82	\$ 18.01
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	\$ 14.70	\$ 15.07	\$ 15.42	\$ 15.86	\$ 16.31	\$ 16.79	\$ 16.08	\$ 16.62	\$ 13.59	\$ 15.07	\$ 16.79
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	\$ 0.48	\$ 0.49	\$ 0.53	\$ 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%	0.65%	0.66%	0.63%	0.75%	0.77%	0.80%	0.75%	1.00%	0.89%	0.71%	0.74%
ROCE	9.7%	10.5%	13.4%	11.1%	10.3%	10.8%	13.2%	13.9%	11.7%	10.7%	9.0%	9.0%	8.7%	10.4%	10.4%	10.8%	7.8%	11.2%	12.0%	10.1%	10.1%
ROTCE	11.0%	11.9%	15.1%	12.5%	11.6%	12.5%	15.1%	16.0%	13.4%	12.3%	10.2%	10.1%	9.7%	11.4%	11.3%	11.6%	8.9%	12.7%	13.7%	11.5%	11.0%
Pretax Preprovision ROAA	1.19%	1.31%	1.56%	1.24%	1.06%	0.98%	1.24%	1.27%	1.08%	0.99%	0.93%	0.92%	0.91%	1.04%	1.09%	1.12%	1.24%	1.33%	1.14%	0.98%	1.04%
Net Interest Margin	3.23%	3.20%	3.47%	3.01%	2.91%	2.93%	3.29%	3.42%	3.19%	3.02%	2.95%	2.95%	2.99%	3.05%	3.08%	3.12%	3.37%	3.23%	3.14%	3.03%	3.06%
Efficiency Ratio	69%	66%	63%	67%	70%	72%	67%	67%	69%	72%	73%	73%	73%	71%	70%	69%	70%	66%	69%	72%	71%
Fee Income/Operating Revenue	23%	23%	22%	24%	24%	21%	17%	16%	17%	19%	19%	19%	19%	20%	20%	20%	25%	23%	19%	19%	20%
Dividend Payout Ratio	28%	26%	19%	25%	28%	32%	25%	26%	31%	32%	38%	37%	38%	31%	30%	29%	36%	24%	28%	34%	32%
Average Balance Sheet																					
Loans	886	896	894	880	876	897	938	969	987	1,017	1,042	1,061	1,080	1,101	1,123	1,145	835	889	920	1,027	1,112
Securities	373	431	489	532	572	560	581	569	565	563	549	542	543	546	548	549	301	456	571	555	546
Earning Assets	1,339	1,404	1,441	1,491	1,515	1,530	1,557	1,563	1,582	1,622	1,628	1,638	1,656	1,676	1,697	1,717	1,198	1,419	1,541	1,618	1,687
Assets	1,435	1,508	1,543	1,594	1,622	1,644	1,668	1,677	1,696	1,737	1,743	1,754	1,773	1,795	1,817	1,839	1,296	1,520	1,653	1,732	1,806
Deposits	1,208	1,285	1,313	1,363	1,375	1,428	1,450	1,417	1,382	1,409	1,429	1,444	1,459	1,476	1,497	1,521	1,087	1,292	1,417	1,416	1,488
Borrowings	78	75	78	77	98	87	87	131	180	189	180	184	189	190	193	196	67	77	101	183	192
Common Equity	136	135	140	140	137	116	119	115	120	124	125	127	129	131	133	135	129	138	122	124	132
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%	6.45%	6.54%	6.61%	6.71%	6.81%	6.93%	8.74%	8.00%	6.21%	6.54%	6.93%
Avg Loans/Avg Earning Assets	66%	64%	62%	59%	58%	59%	60%	62%	62%	63%	64%	65%	65%	66%	66%	67%	70%	63%	60%	63%	66%
Avg Loans/Avg Deposits	73%	70%	68%	65%	64%	63%	65%	68%	71%	72%	73%	73%	74%	75%	75%	75%	77%	69%	65%	72%	75%
Avg Earning Assets/Avg Assets	93%	93%	93%	94%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	92%	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%	1.13%	1.13%	1.14%	1.13%	1.13%	1.13%	0.49%	1.29%	1.16%	1.13%	1.13%
Reserve/NPLs	175%	110%	601%	660%	645%	251%	226%	227%	271%	6925%	-	-	-	-	-	-	141%	660%	227%	-	-
NPAs/Loans+OREO	0.82%	1.23%	0.34%	0.33%	0.33%	0.60%	0.63%	0.60%	0.52%	0.11%	-	-	-	-	-	-	1.01%	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%	0.02%	0.03%	0.04%	0.04%	0.05%	0.04%	-0.01%	-0.05%	-0.03%	0.01%	0.04%
Provision/Average Loans	0.08%	0.08%	0.02%	-0.03%	-0.06%	-0.03%	0.01%	0.01%	0.03%	0.06%	0.14%	0.11%	0.16%	0.09%	0.14%	0.13%	0.44%	0.04%	-0.02%	0.09%	0.13%
Provision/NCOs	2213%	181%	-14%	28%	1563%	31%	-23%	625%	-467%	1540%	0%	0%	0%	0%	0%	0%	-3700%	-74%	49%	697%	305%

Sources: Company Filings, Hovde Group.

Model updated as of: 9/21/23

IMPORTANT DISCLOSURES:

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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 \$22 Price Target equates to 1.46x our 2023 TBV 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	61	56.48%	10	16.39%
Market Perform	47	43.52%	10	21.28%
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 09/20/2023

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.

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