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Banks & Thrifts

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First Community Corporation (FCCO) - NEUTRAL

4Q19 Core EPS Beat Janney, Street. Low Credit Costs & Strong Fee Inc. Help Offset NIM Pressure

Price:	$20.72
Fair Value Estimate:	$21.00
52-Week Range:	$17.08 - $22.79
Market Cap (MM):	$153
Shr.O/S-Diluted (mm):	7.4
Average Daily Volume:	6,956
Dividend:	$0.44
Yield:	2.1%
Tang Book Value:	$13.99
Tang Comn Equity Ratio:	9.0%
Price/Tangible Book:	1.55x

FYE: Dec	2018A	2019A	2020E
EPS - non-GAAP Adjusted:	$1.48A	$1.46A	$1.38E
Prior EPS - non-GAAP Adjusted:		$1.42	NC
P/E non-GAAP Ratio:	14.0x	14.2x	15.0x

Quarterly EPS - non-GAAP Adjusted:			
Q1	$0.35A	$0.33A	$0.30E
Q2	$0.38A	$0.36A	$0.35E
Q3	$0.37A	$0.39A	$0.38E
Q4	$0.38A	$0.38A	$0.35E

1 Year Price History for FCCO

PORTFOLIO MANAGER BRIEF

- 4Q19 EPS; Reported $0.36, Core $0.38, Janney $0.33, Consensus $0.35.
- The nickel beat stemmed primarily from better NII and fee income, which more than offset slightly higher expenses. LLP was nil generally as expected. FCCO's revenue diversity helped offset NIM pressure and support revenues.
- 4Q19 results were highlighted by double digit growth in core deposits, accelerating Fees, a decline in cost of funds, which peaked in 3Q, and continued excellent credit quality. NIM pressure remained a headwind, Loans were flat impacted by payoffs, and expenses were impacted by greater commissions.
- TCE moderated slightly LQ due to balance sheet growth (Securities/Liquidity) though is healthy at 9%. No share repurchases were noted in 4Q19.

ANALYST NOTES

4Q19 core EPS of $0.38 beat by a nickel due to better NII and fee income, which more than offset slightly higher expenses. NII benefited from greater balance sheet growth (in securities/investments) and less NIM pressure. Reported EPS included a one-time charge of $282k (-$0.03) related to the consolidation of mortgage functions.

Loans were flat LQ as solid production was tempered by payoffs. Growth for 2019 was 2.6% with similar factors noted. Net growth for the year represented 13% of production vs. 39% in 2017 and 2018. Deposits grew $39M or 16% LQA due entirely to growth in core deposits (+$46M; 23% LQA), which more than offset a reduction in CDs. This strong funding was deployed into short-term investments and Securities.

NIM declined 9bp LQ to 3.48% as a 14bp decline in AEA yields was mitigated by a 5bp decrease in COF. AEA yields were impacted by a 12bp drop in loan yields and a negative mix shift in AEA as lower yielding securities rose to 26% of AEA from 25%

Core revenues (adj. for 3Q interest recovery) rose 2% LQ to $12.6M driven by increases in both NII (+1.5%) and Fee Inc. (+3%). Balance sheet growth (Securities/ other investments) more than offset NIM compression leading to the increase in NII. Fees benefited from higher service charges and wealth fees as a seasonal decline was noted in mortgage revenues. Core expense increased 2.5% LQ to $8.9M above our forecast of $8.7M. Core E/R was mostly flat at 70.1%.

Credit quality remains excellent with low levels of NPAs, Classifieds, and NCOs. NPAs are 0.77% of Loans & OREO, Classified ratio is ~5% and net recoveries were noted. Reserve coverage of loans was stable at 90 bps.

FCCO Weekly Stock Price Trends

Source: Research by Janney (FIG Group), www.stockcharts.com

 RESEARCH ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE ON PAGES 4 - 5 OF THIS REPORT

Linked Quarter Trends

FCCO (Lexington, SC--$154 Mil. Mkt. Cap, $1.1 Bil. Assets, $20.72, 2.1% Yld)					
	3Q-2019	**Δ**	**4Q-2019**	**Consensus**	**Variance Per Share**
EPS	**$0.39**	**($0.03)**	**$0.36**	**$0.35**	
Operating/Core EPS*	**$0.39**	**($0.01)**	**$0.38**	**$0.35**	**$0.04**
Janney Estimate	-	-	**$0.34**		
Core Net Interest Income (FTE)	9.4	0.1%	9.4	9.2	**$0.02**
Loan Loss Provision	0.0	(100.0%)	0.00	0.1	**$0.02**
Core Non-Interest Income (ex. sec.)	3.1	2.8%	3.2	2.8	**$0.05**
Core Non-Interest Expense	8.7	2.5%	8.9	8.7	**($0.02)**
Net Charge-Offs	(0.17)	(61.3%)	(0.07)		
NCOs % of Avg Loans (bps)	(0.00)	(61.7%)	(0.00)	3	**3**
Tangible Book Per Share	$13.84	1.1%	$13.99	$14.08	**($0.08)**
Net Interest Margin	3.62%	(9)bps	3.53%	3.57%	(0.04%)
Average Loans ($Mil.)	735.1	1.8%	748.1	747.9	0.3
TCE Ratio (TCE/TA)	9.20%	(18)bps	9.02%		
NPAs % of Loans + OREO	0.76%	1bps	0.77%		

*Core EPS exclude gains on sale of securities and other one-time items.

Source: Research by Janney (FIG Group), Company Disclosure

Background and Risks

Headquartered in Lexington, South Carolina, First Community (FCCO) is a $1.2 billion bank holding company (BHC) and the parent of First Community Bank, NA.

Founded in 1995 by a group of former executives from Republic National Bank (acquired by South Financial Group, Inc.), FCCO provides traditional retail, commercial and mortgage banking services through a network of 21 branches in the Midlands area of South Carolina.

We see primary risks to include (1) integration of acquisitions; (2) negative impact from persistently low or rapidly changing interest rates and/or a flattening yield curve; and (3) potential for rising credit costs in light of further growth in unemployment.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Brian Martin, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

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Data sources for the report are Bloomberg Financial L.P., SNL Financial LC, Stockcharts.com, Thomson Financial and regulatory filings.

The research analyst is compensated based on, in part, Janney Montgomery Scott's and/or its affiliate, FIG's profitability, which includes its investment banking revenues.

Janney Montgomery Scott LLC and/or its affiliate, FIG intends to seek or expects to receive compensation for investment banking services from First Community Corporation in the next three months.

Janney Montgomery Scott LLC and/or its affiliate, FIG, currently acts as a market-maker in the securities of First Community Corporation

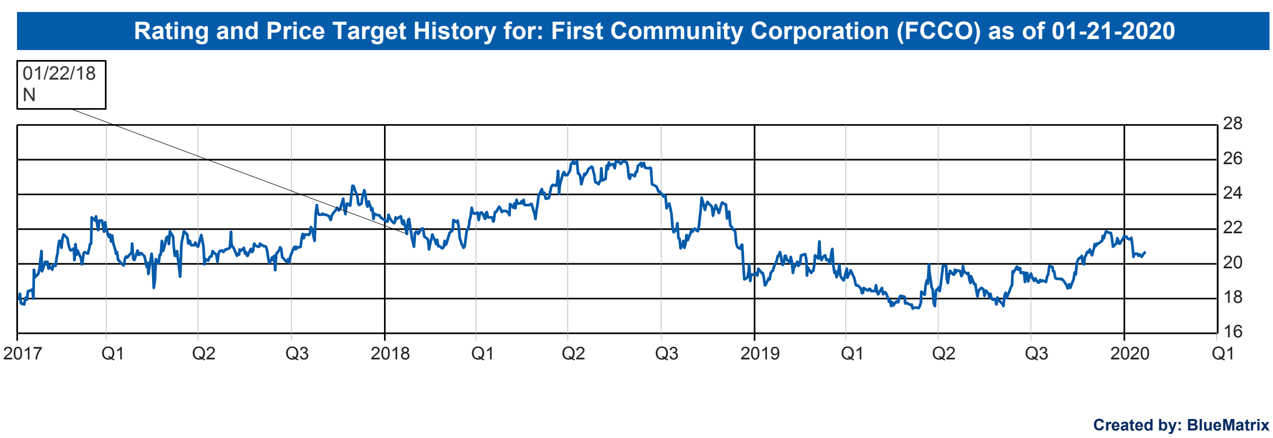
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/2019

			IB Serv./Past 12 Mos.*	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	167	51.38	35	20.96
NEUTRAL [N]	157	48.31	23	14.65
SELL [S]	1	0.31	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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