

Banks & Thrifts

Price:	\$13.66
Fair Value Estimate:	\$17.00
52-Week Range:	\$12.51 - \$22.00
Market Cap (MM):	\$102
Shr.O/S-Diluted (mm):	7.5
Average Daily Volume:	31,072
Dividend:	\$0.48
Yield:	3.5%
Tang Book Value:	\$15.35
Tang Comn Equity Ratio:	8.8%
Price/Tangible Book:	0.89x

FYE: Dec	2019A	2020E	2021E
EPS - non-GAAP	\$1.47A	\$1.09E	\$1.00E
Adjusted: Prior EPS - non-GAAP		\$0.95	\$1.07
Adjusted: P/E non-GAAP Ratio:	9.3x	12.5x	13.7x

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.33A	\$0.23A	\$0.21E
Q2	\$0.36A	\$0.30A	\$0.26E
Q3	\$0.39A	\$0.29E	\$0.27E
Q4	\$0.38A	\$0.28E	\$0.25E

July 27, 2020

First Community Corporation (FCCO) - NEUTRAL

Solid 2Q: Credit Remains Healthy; Earnings Power Allows For Continued Reserve Build

PORTFOLIO MANAGER BRIEF

- Reserves have increased 35% YTD and we expect the company to maintain a defensive posture in the near term building additional reserves until visibility surrounding the COVID-19 pandemic improves.
- FCCO is on track to increase reserves to meet our stressed scenario of an economic downturn (Page 3). We expect capital to remain strong with a CET-1 ratio over 12% in each quarter through 2021.
- Loan deferrals have declined to \$111M or 14% of the Loans (Ex PPP) at July 16th from a peak of \$207M or 27% of the Loans. Importantly, FCCO has seen very limited requests for second deferrals and expects positive migration of deferrals to continue with levels reaching the low single digits by 3Q/4Q.
- EPS Outlook: We are increasing our 2020E to \$1.09 from \$0.95 primarily to reflect the 2Q beat. We are trimming our 2021 EPS to \$1.00 (-\$0.07) to reflect slightly higher credit costs partially offset by higher PPP income.

ANALYST NOTES

Quarterly PPNR-Pre Tax Pre Provision Net Revenues are expected to range between \$3-3.5M level in the coming quarters, which provides cover for Reserves and reasonable profitability.

Our stressed loss scenario pegs possible provisions at ~\$8M and PPNR-Pre-Tax Pre-Provision Net Revenue is expected to exceed \$12M over the next 12 months.

Contrary to most banks reporting thus far this quarter who have seen a decline in Loans (ex PPP), FCCO experienced 10% LQA growth. Growth was concentrated in the OO CRE segment and driven by the Augusta and Midlands markets. Solid loan production and lower payoffs have contributed to this growth. We are modeling low single digit growth in 2H20 as pipelines remain solid.

FCCO expects a meaningful amount of deposits will move off the balance sheet over the next twelve months as the PPP borrowers use those funds.



Core NIM has a downward bias in the near term as Loans and Investments continue to reprice lower while deposit costs are approaching a floor at 28bps. Excess levels of liquidity should moderate over time and help NIM. The forgiveness of PPP loans is expected to provide some upward spikes in the coming quarters. We expect PPP forgiveness to begin in 4Q and continue into 1H21.

Mortgage revenues are expected to decrease in 3Q following a robust 2Q aided by heavy refinance activity. We forecast a modest YOY decline in mortgage revenues in 2021.

Expenses are expected to remain well contained until the depth of the economic strain becomes clearer.

We believe potential future losses from the COVID-19 pandemic could be lower than peer given FCCO's strong underwriting, limited exposure to higher risk segments and low loan to values and secondary sources of repayment on much of its RE exposure. We hope to have greater clarity on the credit book later this year, which could help us get more constructive on the name at that time.

Key Dashboard Indicators & Stressed Analysis On The FCCO Story: TBV Expected To Grow, Capital Remains Strong

	Balance	Loss Estimate	% Loss	Total Default %	Combined Loss %
C&I: Commercial & Industrial	45,813	2,749	6.0%	14%	43%
C&I: Unused Commitments	10,330	258	2.5%	8%	30%
ADC: Construction	85,717	1,264	1.5%	8%	20%
CRE: Owner-Occupied	230,834	3,970	1.7%	9%	20%
CRE: Other, Non Own.Occ.	205,193	5,148	2.5%	12%	21%
Multifamily	22,662	340	1.5%	8%	20%
HELOC	30,213	755	2.5%	13%	19%
Residential MTG 1st Lien	108,640	652	0.6%	10%	6%
Residential MTG 2nd Lien	2,429	65	2.7%	14%	20%
Credit Cards	0	0	na	19%	na
Other Revolving	1,550	185	11.9%	19%	62%
Other Consumer	8,164	408	5.0%	19%	26%
Auto	210	14	6.5%	18%	36%
Ag/Farm Loans	986	25	2.5%	12%	21%
State/Political	5,629	115	2.0%	14%	15%
Other Loans	143	4	3.0%	11%	27%
Total Lease Fin	0	0	na	14%	na
TOTALS	758,513	15,953	2.1%	10%	21%
Loan Loss Reserves	8,936	6-30-20			
Acquired Loan Discount	0				
Possible Provisions	7,017				

Source: Janney Research estimates, S&P MI, Bloomberg LP, FDIC Call/Fed Y-9 filings at 12-31-19

Janney Research Rating: "Neutral"

Fair Value: \$17.00

Implied Gain/Loss versus Current Price: 14.1%

2021 Outlook			
2021 EPS	\$1.00	16.5x	\$16.47
Cash Dividends	\$0.53	1.0x	<u>\$0.53</u>
			\$17.00
Tangible Book 12/21	\$16.21	1.05x	\$17.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Premium Analysis

	<u>Current</u>	<u>Dec-20</u>	<u>Dec-21</u>
Market-Cap	827.2	852.1	877.6
TCE in \$\$	108.6	117.5	121.4
Total Deposits	986.6	1,094.9	1,062.7
CORE Deposits	849.8	959.3	927.1
Premium - Total	72.8%	67.1%	71.2%
Premium - CORE	84.6%	76.6%	81.6%

FCCO Capital Ratio Post Dividends - Dec 2021

PPNR Next 6 Qtrs	19,534	
Risk-Weighted Assets (RWA) Dec. 2019	837,064	
Common EQ-Tier 1 (CET-1) Dec. 2019	112,754	13.47% 12/31/2019 CET-1 Ratio
Dividends Next 6 Qtrs	5,749	
Possible Provisions	7,017	
PF CET-1 Dec. 2021	124,476	
PF Risk-Wtd. Assets (RWA)	940,359	13.24% PF 12-31-21 CET-1 Ratio

Notes: CECL estimate (if added) should exceed 10-K disclosure, RWA reduced by Possible Provisions

Capital Ratios For Several Different Loss Scenarios

<u>%Loss:</u>	<u>1.00%</u>	<u>2.00%</u>	<u>3.00%</u>	<u>4.00%</u>
Estimated Credit Losses	\$7.37	\$14.74	\$22.11	\$29.48
Credit Losses Remaining	\$6.12	\$13.49	\$20.86	\$28.23
CET-1 Ratio - 2019A	13.47%	13.47%	13.47%	13.47%
CET-1 Ratio - 1Q20A	13.35%	13.35%	13.35%	13.35%
CET-1 Ratio - 2Q20E	13.02%	13.02%	13.02%	13.02%
CET-1 Ratio - 2020 Pro Forma	12.94%	12.34%	11.75%	11.15%
TCE Ratio - 2019A	9.02%	9.02%	9.02%	9.02%
TCE Ratio - 1Q20A	9.29%	9.29%	9.29%	9.29%
TCE Ratio - 2Q20A	8.78%	8.78%	8.78%	8.78%
TCE Ratio - Adjusted 2020E	9.02%	8.59%	8.16%	7.73%
TBV - 2019A	\$14.04	\$14.04	\$14.04	\$14.04
TBV - 1Q20	\$14.59	\$14.59	\$14.59	\$14.59
TBV - 2Q20	\$15.34	\$15.34	\$15.34	\$15.34
TBV - 2020 Pro Forma	\$15.48	\$14.75	\$14.01	\$13.28

We factor \$5M more provision expense over the next 6 quarters at FCCO. Above we highlight Capital Ratios based on Loss Assumptions of 1%, 2%, 3% and 4%.

Background and Risks

Headquartered in Lexington, South Carolina, First Community (FCCO) is a ~\$1.3 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.

FCCO Peer Comparison

Company Name		State	Rating	Market Cap. (\$M)	Total Assets (\$000) MRQ	DDA % MRQ	Cost of Deposits MRQ	TCE Ratio MRQ	Core Deposit Premium Today	Price-to- T.Book 7/27/20	P/E 2020 EPS Consensus	ROA Forecast in 2020 Consensus	Loans-to- Deposits Ratio
Peer Analysis:													
FCCO	First Cmnty Corp	SC	Neutral	\$102	\$1,324,800	28	0.28	8.8	(1.4%)	89	11.5x	0.66	77%
BCBP	BCB Bncp Inc	NJ	Not Rated	\$153	\$2,942,003	12	1.48	7.2	(4.3%)	73	16.8x	0.35	101%
BCML	BayCom Corp	CA	Buy	\$138	\$2,189,831	37	0.37	9.5	(4.0%)	68	7.4x	0.85	82%
CIVB	Civista Bcsbs Inc	OH	Not Rated	\$220	\$2,812,153	34	0.34	9.3	(1.9%)	87	8.6x	1.03	101%
CSTR	CapStar Finl Hlgs	TN	Not Rated	\$203	\$2,445,172	26	0.59	9.9	(2.0%)	85	12.0x	0.80	82%
EBMT	Eagle Bancorp	MT	Buy	\$104	\$1,158,600	25	0.60	9.7	(0.9%)	95	7.5x	1.21	95%
ESXB	Cmty Bnk Trst Corp	VA	Neutral	\$112	\$1,453,540	15	1.14	10.7	(7.6%)	72	13.0x	0.57	91%
EVBN	Evans Bancorp Inc	NY	Not Rated	\$123	\$1,524,811	21	0.88	8.9	(2.1%)	84	9.3x	0.71	97%
FBIZ	Frst Bus Fnl Svcs	WI	Neutral	\$125	\$2,468,814	25	0.46	7.6	(3.9%)	68	8.7x	0.70	114%
FCCO	First Cmnty Corp	SC	Neutral	\$102	\$1,324,800	28	0.28	8.8	(1.4%)	89	11.5x	0.66	77%
FFNW	Frst Finl NW	WA	Buy	\$87	\$1,331,213	5	1.71	11.4	(11.1%)	59	14.4x	0.46	108%
HBMD	Howard Bncp Inc	MD	Not Rated	\$187	\$2,507,894	27	0.77	9.9	(4.7%)	77	17.5x	0.45	104%
ICBK	Cnty Bncp Inc	WI	Neutral	\$126	\$1,513,917	14	1.39	10.6	(9.5%)	78	27.2x	0.20	95%
ISTR	Investar Hldg Corp	LA	Buy	\$145	\$2,359,363	25	0.92	8.8	(4.5%)	73	14.2x	0.48	100%
LCNB	LCNB Corp	OH	Not Rated	\$187	\$1,735,332	30	0.49	10.4	1.2%	107	10.0x	1.13	90%
NRIM	Northrim BanCorp	AK	Neutral	\$146	\$1,691,262	32	0.44	10.8	(2.9%)	81	8.4x	1.02	77%
ORRF	Orrstown Finl Svcs	PA	Not Rated	\$156	\$2,772,796	19	0.59	7.3	(3.0%)	77	6.9x	0.78	83%
PMBC	Pacific Mercantile	CA	Not Rated	\$82	\$1,600,138	38	0.99	NA	na	na	35.2x	0.22	96%
PROV	Provident Finl	CA	Buy	\$90	\$1,107,567	10	0.36	11.1	(5.0%)	73	11.3x	0.66	112%
RVSF	Riverview Bancorp	WA	Not Rated	\$110	\$1,180,808	27	0.38	10.5	(1.1%)	92	6.9x	1.39	90%
TCFC	Community Finl Cp	MD	Not Rated	\$133	\$1,826,621	17	0.82	9.5	(3.5%)	77	9.2x	0.82	91%
Source: Janney Research (FIG Group), S&P Global MI					<u>Median</u>	<u>25</u>	<u>0.60</u>	<u>9.7</u>	<u>-3.5%</u>	<u>77</u>	<u>10.6x</u>	<u>0.70</u>	<u>95.0%</u>

Earnings Model

	Annual			2019 Quarterly				2020 Quarterly				2021 Quarterly			
	2019A	2020E	2021E	1Q19A	2Q19A	3Q19A	4Q19A	1Q20A	2Q20A	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E
<u>Income Data: (\$ in Millions)</u>															
Net Interest Income	\$36.8	\$38.6	\$37.6	\$9.0	\$9.1	\$9.4	\$9.4	\$9.4	\$9.7	\$9.7	\$9.8	\$9.4	\$9.2	\$9.4	\$9.5
Loan Loss Provision	\$0.1	\$4.3	\$3.0	\$0.1	\$0.0	\$0.0	\$0.0	\$1.1	\$1.3	\$1.0	\$1.0	\$0.9	\$0.8	\$0.8	\$0.6
Non-Interest Income	\$11.9	\$12.4	\$12.7	\$2.5	\$3.0	\$3.1	\$3.2	\$2.9	\$3.4	\$3.1	\$3.0	\$2.9	\$3.4	\$3.4	\$3.0
Gain/Loss on Loan Sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Gain/Loss on Securities	\$0.1	\$0.0	\$0.0	(\$0.0)	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	(\$0.4)	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.1)	(\$0.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$34.5	\$36.5	\$37.9	\$8.3	\$8.6	\$8.7	\$8.9	\$9.0	\$9.1	\$9.1	\$9.2	\$9.5	\$9.4	\$9.5	\$9.5
Pre-Tax Income	\$13.8	\$10.2	\$9.3	\$3.1	\$3.7	\$3.7	\$3.4	\$2.2	\$2.7	\$2.7	\$2.6	\$2.0	\$2.4	\$2.5	\$2.4
Taxes	\$2.9	\$2.0	\$1.9	\$0.6	\$0.8	\$0.8	\$0.7	\$0.4	\$0.5	\$0.5	\$0.5	\$0.4	\$0.5	\$0.5	\$0.5
Extraordinary Items	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$11.0	\$8.2	\$7.5	\$2.5	\$2.9	\$2.90	\$2.7	\$1.8	\$2.2	\$2.1	\$2.1	\$1.6	\$2.0	\$2.0	\$1.9
Preferred Dividend	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.00	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income Avail. To Common	\$11.0	\$8.2	\$7.5	\$2.5	\$2.9	\$2.9	\$2.7	\$1.8	\$2.2	\$2.1	\$2.1	\$1.6	\$2.0	\$2.0	\$1.9
Avg. Shares O/S	\$7.6	\$7.5	\$7.5	\$7.7	\$7.7	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5
Earnings Per Share (EPS)	\$1.45	\$1.10	\$1.00	\$0.32	\$0.37	\$0.39	\$0.36	\$0.24	\$0.30	\$0.29	\$0.28	\$0.21	\$0.26	\$0.27	\$0.25
<u>Per Share Data:</u>															
Reported Book Value	\$16.16	\$17.80	\$18.26	\$15.19	\$15.64	\$16.03	\$16.16	\$16.70	\$17.47	\$17.64	\$17.80	\$17.88	\$18.01	\$18.14	\$18.26
Tangible Book Value	\$13.99	\$15.69	\$16.21	\$13.03	\$13.46	\$13.84	\$13.99	\$14.55	\$15.34	\$15.52	\$15.69	\$15.79	\$15.93	\$16.08	\$16.21
Dividends	\$0.45	\$0.48	\$0.53	\$0.11	\$0.11	\$0.11	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.13	\$0.13	\$0.13
Pre-Tax, Pre-Provision EPS	\$1.88	\$1.95	\$1.64	\$0.42	\$0.45	\$0.51	\$0.50	\$0.44	\$0.54	\$0.49	\$0.48	\$0.38	\$0.43	\$0.44	\$0.40
CORE GAAP EPS	\$1.47	\$1.09	\$1.00	\$0.33	\$0.36	\$0.39	\$0.38	\$0.23	\$0.30	\$0.29	\$0.28	\$0.21	\$0.26	\$0.27	\$0.25
<u>KEY Ratios:</u>															
Net Interest Margin	3.62%	3.39%	3.36%	3.68%	3.64%	3.62%	3.53%	3.52%	3.35%	3.28%	3.40%	3.42%	3.35%	3.34%	3.35%
Return on Avg Assets	0.98%	0.65%	0.59%	0.92%	1.04%	1.03%	0.94%	0.61%	0.70%	0.65%	0.64%	0.50%	0.62%	0.64%	0.59%
Return on Avg Equity	9.38%	6.39%	5.53%	8.77%	9.83%	9.89%	9.02%	5.81%	6.99%	6.50%	6.25%	4.79%	5.82%	5.95%	5.55%
Return on Tang. Comm. Eq.	10.87%	7.21%	6.35%	10.33%	11.74%	11.64%	10.69%	6.86%	7.94%	7.56%	7.26%	5.62%	6.76%	6.89%	6.44%
Pre-Tax Pre-Provision ROA	1.28%	1.15%	0.97%	1.19%	1.27%	1.36%	1.29%	1.12%	1.26%	1.11%	1.11%	0.90%	1.02%	1.03%	0.93%
Efficiency Ratio	69.67%	70.72%	74.78%	70.18%	69.55%	67.91%	69.09%	71.94%	67.70%	70.63%	71.14%	76.09%	73.93%	73.74%	75.44%
Overhead Ratio	3.09%	2.88%	3.00%	3.06%	3.13%	3.09%	3.08%	3.07%	2.88%	2.76%	2.84%	2.99%	3.00%	3.01%	2.98%
TCE/TA	9.02%	9.14%	9.56%	9.24%	9.19%	9.20%	9.02%	9.29%	8.78%	8.88%	9.14%	9.41%	9.59%	9.58%	9.56%
<u>Period-End Balances: (\$ in Millions)</u>															
Earning Assets	\$1,070	\$1,203	\$1,184	\$997	\$1,013	\$1,026	\$1,070	\$1,078	\$1,227	\$1,227	\$1,203	\$1,174	\$1,160	\$1,172	\$1,184
Total Assets	\$1,170	\$1,301	\$1,285	\$1,097	\$1,116	\$1,130	\$1,170	\$1,185	\$1,325	\$1,325	\$1,301	\$1,272	\$1,259	\$1,272	\$1,285
Gross Loans	\$737	\$804	\$793	\$718	\$727	\$735	\$737	\$750	\$817	\$821	\$804	\$780	\$773	\$783	\$793
Total Deposits	\$988	\$1,095	\$1,063	\$920	\$937	\$949	\$988	\$987	\$1,119	\$1,119	\$1,095	\$1,063	\$1,052	\$1,057	\$1,063
Intangibles	\$16	\$16	\$15	\$17	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$15	\$15
Total Common Equity	\$120	\$133	\$137	\$116	\$117	\$119	\$120	\$125	\$131	\$132	\$133	\$133.83	\$135	\$136	\$137

Source: Janney Research (FIG Group), S&P Global MI

IMPORTANT DISCLOSURES

Research Analyst Certification

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

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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 06/30/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	116	46.40	26	22.41
NEUTRAL [N]	133	53.20	21	15.79
SELL [S]	1	0.40	0	0.00

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

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