

Banks & Thrifts

Price:	\$20.59
Fair Value Estimate:	\$23.00
52-Week Range:	\$12.23 - \$22.00
Market Cap (MM):	\$155
Shr.O/S-Diluted (mm):	7.5
Average Daily Volume:	37,690
Dividend:	\$0.48
Yield:	2.3%
Tang Book Value:	\$16.22
Tang Comn Equity Ratio:	8.4%
Price/Tangible Book:	1.27x

FYE: Dec	2020A	2021E	2022E
EPS - non-GAAP	\$1.35A	\$1.84E	\$1.65E
Adjusted: Prior EPS - non-GAAP		\$1.78	\$1.70
Adjusted: P/E non-GAAP Ratio:	15.3x	11.2x	12.5x

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.23A	\$0.42A	\$0.41E
Q2	\$0.30A	\$0.49A	\$0.42E
Q3	\$0.31A	\$0.47E	\$0.42E
Q4	\$0.46A	\$0.45E	\$0.39E
Year:	\$1.35A	\$1.84E	\$1.65E

July 23, 2021

First Community Corporation (FCCO) - NEUTRAL

Core Trends Remain Strong – Optimistic on Loan Growth & Credit Trends

PORTFOLIO MANAGER BRIEF

- Overall, it was a solid quarter highlighted by strong organic loan growth (5th consecutive quarter of positive organic growth), continued growth in core deposits aided by stimulus, healthy fee income (24% of revenues) aided by a normalization in mortgage GOS margin, and good core expense controls, which contributed to a PPNR of \$4.6M, which was solidly above our estimate. Moreover credit quality remained strong. NIM pressure, driven by higher levels of liquidity was a headwind.
- Loan growth is a key focus as FCCO works to deploy excess liquidity into higher yielding Loans/Securities to improve balance sheet efficiency and profitability. Cash / Securities represent 36% of AEA at 2Q.
- Credit quality continues to hold up well and reserves are solid. Looking forward, we expect reserve coverage to trend back towards pre-pandemic levels as FCCO reduces its COVID reserve allocation if favorable credit/economic trends continues.
- EPS Outlook: Increase 2021 to \$1.84 primarily to reflect the 2Q EPS beat. Trim 2022 EPS to \$1.65 (-\$0.05) to reflect slightly lower fee income and share repurchases. Further, we adjusted the timing of PPP revenue collection. Our 2022 EPS includes a more conservative tax rate.

ANALYST NOTES

Management is optimistic on loan growth given solid pipelines, which support a mid-to high single digit growth rate; however, holding loan yields will remain a challenge given the interest rate / competitive environment.

We model some modest reduction in the core NIM (ex PPP) over the coming quarters given our outlook for 1) continued downward repricing of assets as new loans and investments come on a lower yields, 2) continued elevated levels of liquidity stemming from PPP forgiveness and additional deposit growth, and 3) limited deposit pricing leverage given FCCO's high quality deposit base. We look for NIM to stabilize and or begin to increase over time as 1) FCCO begins to deploy excess liquidity into higher yielding Loans/Securities and or 2) liquidity begins to exit the Bank. Core NIM ex PPP (non FTE) was 3.07%.



The key to NIM expansion is growing loans and remixing earning assets out of cash/securities and into loans.

Core deposit growth is expected to remain healthy in 2H21 though we believe this could be tempered by some runoff of stimulus money.

TCE is expected to increase in the coming quarters (absent significant share repurchase activity) given our expectation the balance sheet begins to stabilize (and or possibly contract if liquidity begins to exit the bank) and earnings remain solid.

PPP loans decreased increased \$15M or 24% LQ to \$47M (\$15M PPP1 & \$32M PPP2) as forgiveness more than offset new PPP2 originations. At 2Q21, there is about \$1.9M of unearned loan fees remaining to be collected.

Mortgage volume moderated from 1Q's elevated level though revenues increased as gain on sale margins normalized in the quarter. Looking forward, we expect mortgage volume to approximate 30-35M in each of the next two quarters with GOS margin approximating 3.20%. Our forecast calls for annual mortgage revenues to decline ~25% in 2021. Wealth management revenues continue to expand and remain a bright spot.

Expense controls remain a focus given revenue headwinds from a low rate environment. Our forecast calls for low single digit core expense growth in 2021 driven by continued investments in technology.

The Loan book is holding up well and we are encouraged by negligible levels of Deferrals. Further, FCCO's Criticized and Classified ratios are low and significantly better than peer at 12% and 9.5%, respectively at 2Q which should comfort investors.

We continue to believe potential future losses from the COVID-19 pandemic will be lower than peer given FCCO's strong underwriting, limited exposure to higher risk segments and low LTV's and secondary sources of repayment of much of its real estate exposure

Janney Research Rating: "Neutral"

Fair Value: \$23.00

Implied Gain/Loss versus Current Price: 11.1%

2022 Outlook

2022 EPS	\$1.84	12.3x	\$22.52
Cash Dividends	\$0.48	1.0x	\$0.48
			\$23.00

Tangible Book 12/22 \$18.04 1.27x \$23.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Premium Analysis

	Current	Dec-21	Dec-22
Market-Cap	154.9	159.6	164.4
TCE in \$\$	117.4	125.8	133.6
Total Deposits	1,173.6	1,302.8	1,302.8
CORE Deposits	1,056.2	1,172.5	1,172.5
Premium - Total	3.2%	2.6%	2.4%
Premium - CORE	3.6%	2.9%	2.6%

Weekly Stock Price Trends



Background and Risks

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 is a full-service commercial bank offering deposit and loan products and series, residential mortgage lending and financial planning/investment advisory services for businesses and consumers. First Community serves customers in the Midlands, Aiken, and Greenville, South Carolina markets as well as Augusta, Georgia. For more information, visit www.firstcommunitysc.com.

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

Ticker	Company Name	State	Rating	Market Cap. (\$M)	Total Assets (\$000) <i>MRQ</i>	DDA % <i>MRQ</i>	Cost of Deposits <i>MRQ</i>	TCE Ratio <i>MRQ</i>	NPAs % of Loans+ORE <i>MRQ</i>	Core Deposit Premium <i>Today</i>	Price-to- T.Book <i>7/23/21</i>	P/E 2022 EPS <i>Consensus</i>	ROA Forecast in 2022 <i>Consensus</i>	Loans-to- Deposits Ratio
<u>Peer Analysis:</u>														
FCCO	First Cmnty Corp	SC	Neutral	\$156	\$1,514,973	33	0.14	8.2	0.8%	3.0%	127	11.6x	0.89	68%
FIZN	Frst Ctzns Bcshs	TN	Not Rated	\$289	\$2,085,950	NA	NA	9.6	na	na	143	na	NA	62%
PFBI	Premier Finl Bncp	WV	Not Rated	\$244	\$2,037,788	31	0.19	9.8	2.0%	3.6%	125	na	NA	74%
JMSB	John Marshall Bncp	VA	Not Rated	\$249	\$2,065,895	26	0.39	9.5	0.0%	4.7%	127	na	NA	91%
FVCB	FVCBankcorp Inc	VA	Buy	\$254	\$1,884,517	31	0.51	9.9	0.6%	5.1%	138	14.9x	0.86	91%
RVRP	River Finl Corp	AL	Not Rated	\$294	\$2,058,927	28	0.26	6.6	0.4%	10.3%	219	na	NA	66%
SLCT	Select Bancorp	NC	Buy	\$260	\$1,832,329	28	0.52	9.4	0.8%	7.5%	154	13.0x	1.04	85%
CBAN	Colony Bkcp Inc	GA	Buy	\$171	\$1,799,046	25	0.18	7.0	2.2%	3.6%	135	9.4x	1.04	70%
MCBS	MetroCity Bkshs	GA	Not Rated	\$466	\$2,154,360	31	0.25	11.4	0.8%	18.0%	189	8.0x	2.41	107%
FFMH	Frst Farmers	TN	Not Rated	\$147	\$1,879,018	27	0.19	7.7	0.2%	0.3%	103	na	NA	54%
BFCC	BankFirst Cap Corp	MS	Not Rated	\$139	\$1,779,965	29	0.38	6.1	na	na	130	na	NA	71%
MNSB	MainStreet Bcshs	VA	Buy	\$178	\$1,707,695	33	0.62	8.9	0.1%	3.2%	118	11.5x	0.99	85%
ESXB	Cmty Bnk Trst Corp	VA	Neutral	\$236	\$1,698,808	23	0.44	10.2	1.0%	6.9%	134	14.0x	0.99	85%
HSBI	Heritage SE Bncp	GA	Not Rated	\$176	\$1,652,265	34	0.24	7.0	0.4%	5.6%	161	na	NA	75%
BRBS	Blue Ridge Bkshrs	VA	Not Rated	\$311	\$3,167,374	29	0.36	6.5	0.2%	7.0%	153	na	NA	108%
PEBK	Peoples Bncp of NC	NC	Not Rated	\$159	\$1,599,573	37	0.21	9.1	0.4%	1.1%	110	na	NA	71%
NKSH	Natl Bankshares	VA	Not Rated	\$218	\$1,661,652	23	0.24	NA	0.8%	na	na	13.2x	1.02	57%
CIZN	Citizens Hdg Co	MS	Not Rated	\$100	\$1,338,134	23	0.40	7.2	1.8%	0.4%	104	na	NA	52%
OPOF	Old Point Finl	VA	Not Rated	\$118	\$1,257,638	35	0.30	9.2	0.2%	0.2%	102	na	NA	73%
CPKF	Chesapeake Finl	VA	Not Rated	\$135	\$1,292,731	26	NA	9.9	1.0%	1.5%	111	11.2x	0.98	60%
MBLU	Morris State Bcshs	GA	Not Rated	\$157	\$1,339,741	26	0.20	9.0	1.5%	na	132	na	NA	72%
SFDL	Security Federal	SC	Not Rated	\$106	\$1,179,421	NA	0.20	9.2	0.7%	(0.3%)	98	na	NA	53%
MCBI	Mtn Commerce Bncp	TN	Not Rated	\$163	\$1,146,199	26	0.36	9.4	0.3%	8.1%	151	8.7x	1.64	100%
COSO	CoastalSouth Bcshs	SC	Not Rated	\$134	\$1,180,621	28	0.41	8.5	0.4%	3.8%	133	na	NA	74%
EFSI	Eagle Finl Svcs	VA	Not Rated	\$118	\$1,184,957	41	0.19	8.9	0.9%	1.3%	112	na	NA	82%
GRRB	GrandSouth Bncp	SC	Not Rated	\$125	\$1,163,471	25	0.32	7.5	0.4%	4.8%	142	na	NA	90%
Source: Janney Research (FIG Group), S&P Global MI					<u>Median</u>	<u>28</u>	<u>0.30</u>	<u>9.0</u>	<u>0.6%</u>	<u>3.8%</u>	<u>133</u>	<u>11.5x</u>	<u>1.02</u>	<u>73.9%</u>

Earnings Model

	Annual			2020 Quarterly				2021 Quarterly				2022 Quarterly			
	2020A	2021E	2022E	1Q20A	2Q20A	3Q20A	4Q20A	1Q21A	2Q21A	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E
<u>Income Data: (\$ in Millions)</u>															
Net Interest Income	\$40.0	\$43.7	\$43.0	\$9.4	\$9.7	\$10.2	\$10.69	\$10.6	\$11.1	\$11.0	\$11.0	\$10.8	\$10.8	\$10.6	\$10.7
Loan Loss Provision	\$3.7	\$0.7	\$0.7	\$1.1	\$1.3	\$1.1	\$0.28	\$0.2	\$0.2	\$0.17	\$0.17	\$0.170	\$0.170	\$0.200	\$0.200
Non-Interest Income	\$13.4	\$13.2	\$13.8	\$2.9	\$3.4	\$3.4	\$3.60	\$3.2	\$3.4	\$3.4	\$3.2	\$3.3	\$3.6	\$3.7	\$3.3
Gain/Loss on Loan Sales	\$0.0	\$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
Gain/Loss on Securities	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.00	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	\$0.3	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.3	\$0.00	\$0.1	(\$0.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$37.5	\$38.8	\$39.9	\$9.0	\$9.1	\$9.7	\$9.65	\$9.5	\$9.7	\$9.7	\$9.8	\$9.9	\$10.0	\$10.0	\$10.0
Pre-Tax Income	\$12.6	\$17.4	\$16.2	\$2.2	\$2.7	\$3.3	\$4.36	\$4.1	\$4.5	\$4.5	\$4.3	\$4.0	\$4.2	\$4.1	\$3.8
Taxes	\$2.5	\$3.7	\$4.0	\$0.4	\$0.5	\$0.6	\$0.93	\$0.9	\$0.9	\$0.9	\$0.9	\$1.0	\$1.0	\$1.0	\$0.9
Extraordinary Items	\$0.0	\$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
Net Income	\$10.1	\$13.7	\$12.2	\$1.8	\$2.2	\$2.7	\$3.44	\$3.3	\$3.5	\$3.5	\$3.4	\$3.0	\$3.1	\$3.1	\$2.9
Preferred Dividend	\$0.0	\$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
Net Income Avail. To Common	\$10.1	\$13.7	\$12.2	\$1.8	\$2.2	\$2.7	\$3.44	\$3.3	\$3.5	\$3.5	\$3.4	\$3.0	\$3.1	\$3.1	\$2.9
Avg. Shares O/S	\$7.5	\$7.5	\$7.4	\$7.5	\$7.5	\$7.5	\$7.50	\$7.5	\$7.5	\$7.5	\$7.4	\$7.4	\$7.4	\$7.4	\$7.4
Earnings Per Share (EPS)	\$1.35	\$1.83	\$1.65	\$0.24	\$0.30	\$0.35	\$0.46	\$0.43	\$0.47	\$0.47	\$0.45	\$0.41	\$0.42	\$0.42	\$0.39
<u>Per Share Data:</u>															
Reported Book Value	\$18.18	\$18.97	\$20.11	\$16.70	\$17.47	\$17.78	\$18.18	\$17.63	\$18.29	\$18.64	\$18.97	\$19.26	\$19.55	\$19.85	\$20.11
Tangible Book Value	\$16.07	\$16.88	\$18.04	\$14.55	\$15.34	\$15.67	\$16.07	\$15.54	\$16.22	\$16.56	\$16.88	\$17.16	\$17.47	\$17.77	\$18.04
Dividends	\$0.48	\$0.48	\$0.50	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.13	\$0.13	\$0.13
Pre-Tax, Pre-Provision EPS	\$2.12	\$2.42	\$2.28	\$0.44	\$0.54	\$0.52	\$0.62	\$0.56	\$0.64	\$0.62	\$0.60	\$0.57	\$0.58	\$0.59	\$0.55
CORE GAAP EPS	\$1.30	\$1.84	\$1.65	\$0.23	\$0.30	\$0.31	\$0.46	\$0.42	\$0.49	\$0.47	\$0.45	\$0.41	\$0.42	\$0.42	\$0.39
<u>KEY Ratios:</u>															
Net Interest Margin	3.35%	3.15%	3.08%	3.52%	3.35%	3.24%	3.28%	3.20%	3.17%	3.11%	3.11%	3.13%	3.09%	3.03%	3.06%
Return on Avg Assets	0.78%	0.92%	0.81%	0.61%	0.70%	0.79%	0.99%	0.91%	0.94%	0.94%	0.89%	0.81%	0.84%	0.84%	0.77%
Return on Avg Equity	7.84%	9.96%	8.42%	5.81%	6.99%	8.05%	10.31%	9.60%	10.46%	10.18%	9.59%	8.56%	8.73%	8.59%	7.80%
Return on Tang. Comm. Eq.	8.57%	11.00%	9.23%	6.86%	7.94%	9.25%	11.55%	11.26%	11.68%	11.50%	10.83%	9.67%	9.81%	9.62%	8.74%
Pre-Tax Pre-Provision ROA	1.22%	1.22%	1.13%	1.12%	1.26%	1.16%	1.33%	1.18%	1.28%	1.23%	1.18%	1.12%	1.15%	1.16%	1.08%
Efficiency Ratio	69.64%	67.77%	69.87%	71.94%	67.70%	70.10%	66.58%	68.37%	65.92%	67.36%	68.39%	69.90%	69.46%	69.31%	70.82%
Overhead Ratio	2.90%	2.60%	2.66%	3.07%	2.88%	2.89%	2.77%	2.66%	2.57%	2.58%	2.60%	2.64%	2.67%	2.67%	2.67%
TCE/TA	3.66%	8.39%	8.98%	9.29%	8.78%	8.59%	8.74%	7.92%	8.15%	8.28%	8.39%	8.50%	8.67%	8.84%	8.98%
<u>Period-End Balances: (\$ in Millions)</u>															
Earning Assets	\$1,252	\$1,401	\$1,391	\$1,066	\$1,193	\$1,246	\$1,252	\$1,365	\$1,401	\$1,401	\$1,401	\$1,398	\$1,394	\$1,391	\$1,391
Total Assets	\$3,306	\$1,515	\$1,504	\$1,185	\$1,325	\$1,382	\$1,395	\$1,492	\$1,515	\$1,515	\$1,515	\$1,511	\$1,507	\$1,504	\$1,504
Gross Loans	\$844	\$881	\$929	\$750	\$817	\$844	\$844	\$869	\$878	\$880	\$881	\$887	\$893	\$911	\$929
Total Deposits	\$1,189	\$1,303	\$1,303	\$987	\$1,119	\$1,174	\$1,189	\$1,271	\$1,290	\$1,296	\$1,303	\$1,303	\$1,303	\$1,303	\$1,303
Intangibles	\$16	\$16	\$15	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$15	\$15	\$15
Total Common Equity	\$136	\$141	\$149	\$125	\$131	\$133	\$136	\$133	\$138	\$140	\$141	\$142.58	\$145	\$147	\$149

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

IMPORTANT DISCLOSURES

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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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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.

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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 06/30/2021

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	124	47.51	26	20.99
NEUTRAL [N]	103	39.46	3	2.91
SELL [S]	0	0.00	0	0.00

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

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