

Banks & Thrifts

Price:	\$19.31
Fair Value Estimate:	\$21.00
52-Week Range:	\$17.08 - \$23.96
Market Cap (MM):	\$143
Shr.O/S-Diluted (mm):	7.4
Average Daily Volume:	8,524
Dividend:	\$0.44
Yield:	2.3%
Tang Book Value:	\$13.84
Tang Comn Equity Ratio:	9.2%
Price/Tangible Book:	1.41x

FYE: Dec	2018A	2019E	2020E
EPS - non-GAAP	\$1.48A	\$1.42E	\$1.38E
Adjusted: Prior EPS - non-GAAP		\$1.39	NC
Adjusted: P/E non-GAAP Ratio:	13.0x	13.6x	14.0x

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	\$0.34E	\$0.35E



October 17, 2019

First Community Corporation (FCCO) - NEUTRAL

Higher Fees Lower Tax Rate Drive 3Q Beat; Increase 2019 EPS on Better 3Q Results & Maintain 2020 EPS

PORTFOLIO MANAGER BRIEF

- Increase 2019 EPS to \$1.42 (+\$0.03) and maintain 2020 EPS at \$1.38
- Loan growth outlook is solid though payoffs remain a factor, Core NIM has downward bias in a down rate environment, solid growth in fees is expected, and expense growth should be modest.
- A second share repurchase plan (200k shares) was announced following completion of its existing plan in 3Q19. This should help manage capital and support future EPS. Capital flexibility exists w/ TCE of 9.2.
- Maintain Neutral and Fair Value at \$21 or ~145% of Forward TBV.

ANALYST NOTES

Loan growth was solid in 3Q19 though payoffs remain a headwind. 3Q net loan growth represented 27% of gross production vs. 21% in 2Q. Our forecast calls for 5% growth in 2020 supported by FCCO's healthy operating markets, low share in its newer markets and good geographic diversification. 3Q19 deposit growth remained healthy despite being in a rate reduction mode.

We estimate the September 2019 rate cut will reduce NIM by ~4bp with the potential impact from future rate cuts moderating some as deposit repricing catches up with Asset repricing. Our forward EPS forecast now includes three more rate cuts by the Fed through January 2020. A continued remix of the balance sheet (securities to loans) should help mitigate NIM pressure. FCCO is targeting an 80% Loan/Earning Asset ratio over time (72% at 3Q19). Our forecast calls for GAAP NIM to moderate to ~3.45% by late 2020 from 3.57% at 3Q19. Any additional flattening of the yield curve would negatively impact our NIM forecast. While the current rate environment should continue to pressure NIM, FCCO is focused on growing dollars of NII to support earnings. We forecast NII to be flattish in 2020 vs. 2019 at ~\$36.5M. Our EPS forecast calls for ROAA to ~0.90% in 2020.

Good revenue diversification should continue to help support earnings in a down rate environment. Fee income ~25% of revenue in 3Q19 (above peer) and our forecast calls for it to hold at this level in 2020. We expect a modest seasonal decline in Fee Inc. in 4Q19 with low to mid-single digit growth expected in 2020 aided by steady growth in all segments. We are projecting ~\$135M in annual mortgage production in 2020 at a ~3.3% GOS margin. Core expenses are forecast to be flat in 4Q19 with modest growth expected in 2020 as FCCO leverages recent franchise investments. We forecast the E/R to be flattish in 2020 at ~70.5%.

Maintain Fair Value at \$21

Janney Research Rating: "Neutral"

Fair Value: \$21.00

Implied Gain/Loss versus Current Price: 8.8%

2020 Outlook			
2020 EPS	\$1.38	14.8x	\$20.52
Cash Dividends	\$0.48	1.0x	<u>\$0.48</u>
			\$21.00
Tangible Book 12/20	\$14.75	1.42x	\$21.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Premium Analysis

	Current	Dec-19	Dec-20
Market-Cap	1,072.8	1,105.0	1,138.1
TCE in \$\$	101.1	103.7	109.1
Total Deposits	937.4	958.3	989.8
CORE Deposits	791.6	812.5	844.0
Premium - Total	103.7%	104.5%	104.0%
Premium - CORE	122.8%	123.2%	121.9%

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

Maintain Neutral and Fair Value at \$21 or ~145% of Forward Tangible Book Value.

Management remains focused on remixing its balance sheet out of lower yielding securities and into higher yielding loans to improve balance sheet efficiency and profitability. Absent an acquisition, this remix is likely a multi-year endeavor given the competitive landscape, the company's strong credit discipline and a potential economic slowdown.

There is no change to our LLP expense given continued strength in the portfolio. Our EPS forecast calls for ~50% of the new buyback to be completed by 4Q20.

Background and Risks

Headquartered in Lexington, South Carolina, First Community (FCCO) is a ~\$1.1 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		Market Cap. (\$M)	Total Assets (\$000) MRQ	DDA % MRQ	Cost of Deposits MRQ	TCE Ratio MRQ	Core Deposit Premium Today	Price-to-T.Book 10/17/19	P/E 2019 EPS Consensus	P/E 2020 EPS Consensus	ROA Forecast in 2019 Consensus	Loans-to-Deposits Ratio
Peer Analysis:												
FCCO	First Cmnty Corp	\$143	\$1,129,990	28	0.52	9.2	5.3%	140	14.0x	13.9x	0.95	78%
BCBP	BCB Bncp Inc	\$213	\$2,738,130	13	1.45	7.0	1.9%	112	10.7x	10.2x	0.73	105%
BCML	BayCom Corp	\$266	\$1,771,727	36	0.52	11.6	5.7%	134	11.0x	9.6x	1.16	81%
CIVB	Civista Bcsbs Inc	\$337	\$2,202,995	30	0.47	10.9	7.8%	146	10.7x	10.5x	1.52	98%
CSTR	CapStar Finl Hlgs	\$289	\$2,018,421	19	1.39	10.6	5.8%	136	12.3x	12.6x	1.17	84%
EBMT	Eagle Bancorp	\$110	\$1,007,725	24	0.50	9.8	2.5%	114	9.6x	8.7x	0.95	101%
ENFC	Entegra Financial	\$208	\$1,664,209	16	1.09	9.2	6.9%	139	14.6x	14.3x	NA	87%
ESXB	Cmty Bnk Trst Corp	\$182	\$1,431,131	15	1.21	10.3	6.1%	124	12.7x	12.7x	1.03	87%
EVBN	Evans Bancorp Inc	\$178	\$1,471,120	19	0.95	8.8	5.1%	140	10.7x	10.0x	1.13	95%
FBIZ	Frst Bus Fnl Svcs	\$213	\$2,070,304	20	1.67	8.6	3.3%	121	10.0x	11.0x	1.04	112%
FCCO	First Cmnty Corp	\$143	\$1,129,990	28	0.52	9.2	5.3%	140	14.0x	13.9x	0.95	78%
FFNW	Frst Finl NW	\$142	\$1,297,561	5	1.79	11.7	(1.1%)	97	14.4x	13.9x	0.75	104%
HBMD	Howard Bncp Inc	\$312	\$2,295,634	25	0.95	10.3	7.7%	137	18.1x	17.4x	0.76	99%
ICBK	Cnty Bncp Inc	\$130	\$1,484,646	9	1.91	10.1	(4.6%)	87	9.7x	9.9x	0.92	95%
ISTR	Investar Hldg Corp	\$235	\$1,996,641	19	1.24	9.1	6.4%	133	12.6x	11.0x	0.96	99%
LCNB	LCNB Corp	\$229	\$1,642,012	25	0.73	10.1	6.8%	144	12.3x	11.2x	1.15	91%
NRIM	Northrim BanCorp	\$252	\$1,552,770	34	0.38	12.4	5.4%	133	14.0x	16.8x	1.17	79%
ORRF	Orrstown Finl Svcs	\$242	\$2,399,508	12	1.04	8.1	3.5%	125	11.0x	10.1x	0.94	79%
PMBC	Pacific Mercantile	\$169	\$1,419,117	32	1.26	NA	2.4%	115	17.5x	13.4x	0.68	91%
PROV	Provident Finl	\$151	\$1,084,850	11	0.36	11.1	4.7%	125	24.6x	14.6x	0.55	105%
RVSB	Riverview Bancorp	\$165	\$1,165,234	30	0.15	9.7	6.5%	149	9.7x	9.7x	1.48	96%
TCFC	Community Finl Cp	\$179	\$1,756,448	15	1.10	8.6	2.7%	119	11.4x	10.7x	0.90	93%
TRCB	Two River	\$178	\$1,153,797	18	1.15	9.1	11.1%	172	15.3x	14.4x	1.01	98%

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

Median **19** **1.07** **9.8** **5.4%** **133** **12.3x** **11.1x** **0.96** **94.9%**

First Community Corporation (FCCO)
Updated on 10/16/19
Earnings Model

	Annual			2018 Quarterly				2019 Quarterly				2020 Quarterly			
	2018A	2019E	2020E	1Q18A	2Q18A	3Q18A	4Q18A	1Q19A	2Q19A	3Q19A	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
<u>Income Data: (\$ in Millions)</u>															
Net Interest Income	\$35.7	\$36.6	\$36.3	\$8.5	\$8.9	\$8.9	\$9.4	\$9.0	\$9.1	\$9.4	\$9.1	\$8.8	\$9.0	\$9.2	\$9.3
Loan Loss Provision	\$0.3	\$0.189	\$0.575	\$0.2	\$0.0	\$0.0	\$0.1	\$0.1	\$0.0	\$0.0	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2
Non-Interest Income	\$11.0	\$11.5	\$12.1	\$2.7	\$2.8	\$2.8	\$2.6	\$2.5	\$3.0	\$3.1	\$2.8	\$2.7	\$3.2	\$3.3	\$2.9
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	(\$0.3)	\$0.1	\$0.0	(\$0.1)	\$0.1	\$0.0	(\$0.3)	(\$0.0)	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$32.1	\$34.3	\$34.8	\$7.6	\$8.2	\$8.1	\$8.2	\$8.3	\$8.6	\$8.7	\$8.7	\$8.7	\$8.8	\$8.7	\$8.7
Pre-Tax Income	\$13.9	\$13.6	\$13.0	\$3.4	\$3.6	\$3.6	\$3.4	\$3.1	\$3.7	\$3.7	\$3.2	\$2.8	\$3.3	\$3.6	\$3.3
Taxes	\$2.7	\$2.8	\$2.7	\$0.7	\$0.6	\$0.7	\$0.7	\$0.6	\$0.8	\$0.8	\$0.7	\$0.6	\$0.7	\$0.8	\$0.7
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	\$11.2	\$10.8	\$10.3	\$2.7	\$3.0	\$2.8	\$2.7	\$2.5	\$2.9	\$2.9	\$2.5	\$2.2	\$2.6	\$2.9	\$2.6
Preferred Dividend	\$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 Avail. To Common	\$11.2	\$10.8	\$10.3	\$2.7	\$3.0	\$2.8	\$2.7	\$2.5	\$2.9	\$2.9	\$2.5	\$2.2	\$2.6	\$2.9	\$2.6
Avg. Shares O/S	\$7.7	\$7.6	\$7.5	\$7.7	\$7.7	\$7.7	\$7.7	\$7.7	\$7.7	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5
Earnings Per Share (EPS)	\$1.45	\$1.42	\$1.38	\$0.35	\$0.39	\$0.37	\$0.35	\$0.32	\$0.37	\$0.39	\$0.34	\$0.30	\$0.35	\$0.38	\$0.35
<u>Per Share Data:</u>															
Reported Book Value	\$14.74	\$16.20	\$16.92	\$13.88	\$14.07	\$14.18	\$14.74	\$15.19	\$15.64	\$16.03	\$16.20	\$16.32	\$16.49	\$16.69	\$16.92
Tangible Book Value	\$12.55	\$14.01	\$14.75	\$11.63	\$11.84	\$11.98	\$12.55	\$13.03	\$13.46	\$13.84	\$14.01	\$14.13	\$14.30	\$14.51	\$14.75
Dividends	\$0.40	\$0.44	\$0.48	\$0.10	\$0.10	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	\$0.11	\$0.12	\$0.12	\$0.12	\$0.12
Pre-Tax, Pre-Provision EPS	\$1.89	\$1.81	\$1.82	\$0.48	\$0.46	\$0.47	\$0.49	\$0.42	\$0.46	\$0.50	\$0.43	\$0.39	\$0.47	\$0.51	\$0.47
CORE GAAP EPS	\$1.48	\$1.42	\$1.38	\$0.35	\$0.38	\$0.37	\$0.38	\$0.33	\$0.36	\$0.39	\$0.34	\$0.30	\$0.35	\$0.38	\$0.35
<u>KEY Ratios:</u>															
Net Interest Margin	3.64%	3.61%	3.44%	3.61%	3.67%	3.55%	3.74%	3.68%	3.64%	3.62%	3.50%	3.45%	3.44%	3.44%	3.44%
Return on Avg Assets	1.04%	0.97%	0.88%	1.03%	1.12%	1.04%	0.98%	0.92%	1.04%	1.03%	0.88%	0.77%	0.90%	0.97%	0.89%
Return on Avg Equity	10.48%	9.22%	8.43%	10.26%	11.32%	10.50%	9.84%	8.77%	9.83%	9.89%	8.39%	7.36%	8.58%	9.30%	8.45%
Return on Tang. Comm. Eq.	12.10%	10.72%	9.76%	12.68%	13.74%	12.80%	11.58%	10.33%	11.74%	11.64%	9.98%	8.81%	10.17%	10.96%	9.95%
Pre-Tax Pre-Provision ROA	1.36%	1.24%	1.17%	1.40%	1.33%	1.33%	1.40%	1.20%	1.27%	1.32%	1.14%	1.01%	1.20%	1.29%	1.20%
Efficiency Ratio	67.53%	70.24%	70.81%	65.45%	68.09%	67.50%	66.39%	70.18%	69.55%	67.91%	71.36%	73.46%	70.24%	68.42%	69.61%
Overhead Ratio	2.98%	3.08%	2.99%	2.88%	3.07%	2.99%	2.99%	3.06%	3.13%	3.09%	3.05%	3.02%	3.03%	2.97%	2.92%
TCE/TA	8.92%	9.20%	9.26%	8.39%	8.38%	8.51%	8.92%	9.24%	9.19%	9.20%	9.20%	9.18%	9.20%	9.18%	9.26%
<u>Period-End Balances: (\$ in Millions)</u>															
Earning Assets	\$996	\$1,039	\$1,085	\$974	\$994	\$995	\$996	\$997	\$1,013	\$1,026	\$1,039	\$1,049	\$1,060	\$1,076	\$1,085
Total Assets	\$1,092	\$1,144	\$1,195	\$1,071	\$1,092	\$1,091	\$1,092	\$1,097	\$1,116	\$1,130	\$1,144	\$1,156	\$1,167	\$1,185	\$1,195
Gross Loans	\$718	\$746	\$778	\$668.6	\$684.3	\$697	\$718	\$718	\$727	\$735	\$746	\$750	\$759	\$771	\$778
Total Deposits	\$926	\$958	\$990	\$920	\$933	\$922	\$926	\$920	\$937	\$949	\$958	\$963	\$973	\$985	\$990
Intangibles	\$17	\$16	\$16	\$17	\$17	\$17	\$17	\$17	\$16	\$16	\$16	\$16	\$16	\$16	\$16
Total Common Equity	\$112	\$120	\$125	\$105	\$107	\$108	\$112	\$116	\$117	\$119	\$120	\$120.80	\$122	\$123	\$125

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.

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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

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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 09/30/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	171	52.78	37	21.64
NEUTRAL [N]	151	46.60	20	13.25
SELL [S]	2	0.62	0	0.00

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

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