

Banks & Thrifts

Price:	\$21.28
Fair Value Estimate:	\$23.00
52-Week Range:	\$16.97 - \$22.25
Market Cap (MM):	\$161
Shr.O/S-Diluted (mm):	7.6
Average Daily Volume:	12,010
Dividend:	\$0.52
Yield:	2.4%
Tang Book Value:	\$13.62
Tang Comn Equity Ratio:	6.2%
Price/Tangible Book:	1.56x

FYE: Dec	2022E	2023E	2024E
EPS - non-GAAP	\$1.90E	\$2.04E	\$2.09E
Adjusted: Prior EPS - non-GAAP	\$1.88	\$2.09	NC
Adjusted: P/E non-GAAP Ratio:	11.2x	10.4x	10.2x

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.44A	\$0.47E	--
Q2	\$0.41A	\$0.49E	--
Q3	\$0.52A	\$0.55E	--
Q4	\$0.53E	\$0.53E	--
Year:	\$1.90E	\$2.04E	\$2.09E



January 23, 2023

First Community Corporation (FCCO) - NEUTRAL

4Q22 Final; Trim 2023 Estimate & Establish 2024; Superior Funding And Strong Liquidity To Help Mitigate Accelerating Funding Pressure

PORTFOLIO MANAGER BRIEF

- EPS Outlook; Lower 2023 EPS to \$2.04 from \$2.09 and establish 2024 EPS at \$2.09. Our reduced 2023 outlook reflects a more conservative posture on NIM given upward pressure on funding costs, which more than offsets higher fee income and lower provisioning as credit trends remain healthy.
- Maintain 'Neutral' rating with \$23 FVE, which reflects ~11x 2023 EPS
- Loan growth was a stand-out in 4Q (+13% LQA) and FY22 (+14% LQA) and is a key focus as FCCO works to optimize balance sheet efficiency (via improving AEA mix) and profitability. Avg. Cash balances have declined to 1.5% of AEA from over 5% at 4Q21 aided by strong loan growth, while Avg. Securities remain elevated at 36% of AEA. 35% of 2020's loan growth stemmed from market expansion into Rock Hill, SC and the retention of mortgage ARM loans.
- Pipelines are solid heading into 2023 though borrowers are growing more cautious of rising rates and fears of a recession. FCCO is seeing some signs of demand softening as CRE projects are put on hold given higher rates. Conversely, higher rates have resulted in fewer CRE sales and in turn a moderation in payoffs, which is expected to continue into 2023. We forecast 7-8% growth in 2023-2024.

ANALYST NOTES

We are modeling limited growth in the overall size of the balance sheet over the next 12-24 months as loan growth is funded largely by cash flow coming off the investment portfolio which ~\$60M and \$75M, respectively, in 2023 and 2024.

Contraction in the Deposit book is expected to moderate as 1) much of the excess liquidity has already run out of the Bank (chasing higher rates), 2) FCCO has made changes to its Deposit pricing and 3) the opening of a full-service branch in Rock Hill in mid-October supports Deposit growth. We model Deposits to be flattish in 2023.

The quality of FCCO's deposit base (34% DDA, 10% CD w/low 25bp COD) is highlighted by its low deposit beta, given an impressive ability to lag on deposit pricing. Elevated levels of liquidity as evidenced by the low Loan to Deposit ratio (71%) have supported the company's ability to lag funding costs. While the

expectation is that Betas will trend higher, we expect FCCO's superior funding base & balance sheet positioning to support continued outperformance relative to peer.

We forecast NIM to come under some pressure over the next quarter or two as Deposit pricing catches up following successful lagging in 2022. FCCO's cycle to date Deposit beta is sub 10%. Importantly, we expect NIM to resume expanding once the Fed stops raising rates as FCCO's fixed rate loan book (~85% fixed) continues to reprice upward over time. The average life of the loan book is ~2.5 years, the current loan yield is ~4.5% and new/renewed loans are coming on the books around 6%. NIM should also benefit from the continued remix of the balance sheet from Securities to Loans.

Loans betas were 11% in 4Q reflecting the Banks focus on CRE lending and lower level of variable rates loans (15%). Loan betas will have a longer tail as fixed rate loans reprice up over time and or new loans come on the balance sheet. Investors should consider the Banks AEA beta, which was a higher 28% as ~30% of the Securities book is floating rate.

Fee income is projected to expand about ~7% in 2023 aided by a rebound in mortgage revenues. FCCO added four mortgage producers in 3Q22, which should boost future production. We expect volume to pick up beginning in 2Q23 after we get past normal first quarter seasonality and new producers gain momentum. Given current market conditions, we expect FCCO to continue to retain some production on its balance sheet in 2023.

Operating expenses are expected to increase ~6% rate in 2023 impacted by wage inflation, a full year impact of recent Rock Hill expansion, greater mortgage production, and ongoing investments in the franchise. Positive operating leverage is forecast in 2023.

Credit metrics are strong as we enter a period of economic uncertainty. While we don't expect FCCO to sustain its Net recovery performance (5 consecutive years of net recoveries) we do expect the company to continue its historic trend of outperforming the industry. FCCO adopted CECL as of January 1st, which we expect will result in a modest Day 1 boost to the Reserve in 1Q23. We forecast reserve coverage increasing to around 1.20%.

Janney Research Rating: "Neutral"

Fair Value: \$23.00

Implied Gain/Loss versus Current Price: 7.5%

2023 Outlook

2023 EPS	\$2.04	11.0x	\$22.43
Cash Dividends	\$0.57	1.0x	<u>\$0.57</u>
			\$23.00

Tangible Book 12/22 \$15.09 1.52x \$23.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Premium Analysis

	Current	Dec-22	Dec-23
Market-Cap	153.8	158.5	163.2
TCE in \$\$	103.0	103.0	114.3
Total Deposits	1,385.4	1,385.4	1,406.3
CORE Deposits	1,279.0	1,279.0	1,298.3
Premium - Total	3.7%	4.0%	3.5%
Premium - CORE	4.0%	4.3%	3.8%

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 services, residential mortgage lending and financial planning/investment advisory services for businesses and consumers. First Community serves customers in the Midlands, Aiken, Upstate and Piedmont Regions of South Carolina 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) MRQ	DDA % MRQ	Cost of Deposits MRQ	TCE Ratio MRQ	NPAs % of Loans+ORE MRQ	Core Deposit Premium Today	Price-to- T.Book 1/20/23	P/E 2022 EPS Consensus	P/E 2023 EPS Consensus	ROA Forecast in 2023 Consensus	Loans-to- Deposits Ratio
Peer Analysis:															
FCCO	First Cmnty Corp	SC	Neutral	\$162	\$1,672,946	33	0.25	6.2	0.3%	4.8%	157	11.3x	10.4x	0.88	63%
FIZN	Frst Ctzns Bcshs	TN	Not Rated	\$239	\$2,301,816	23	NA	5.1	na	1.9%	115	na	na	NA	62%
JMSB	John Marshall Bncp	VA	Not Rated	\$367	\$2,348,235	23	1.09	9.1	0.0%	12.2%	165	na	na	NA	89%
FVCB	FVCBankcorp Inc	VA	Neutral	\$263	\$2,204,984	27	0.64	8.5	0.2%	4.8%	139	10.3x	9.6x	1.30	80%
RVRF	River Finl Corp	AL	Not Rated	\$226	\$2,639,743	28	0.22	3.5	0.2%	6.5%	249	na	na	NA	59%
CBAN	Colony Bkcp Inc	GA	Buy	\$226	\$2,805,912	23	0.24	6.2	1.0%	2.7%	132	9.9x	8.9x	0.77	56%
MCBS	MetroCity Bkshs	GA	Not Rated	\$522	\$3,348,439	23	1.13	10.2	0.6%	9.3%	153	7.8x	9.6x	2.16	111%
FFMH	Frst Farmers	TN	Not Rated	\$111	\$1,941,415	30	0.17	3.9	0.2%	2.1%	148	na	na	NA	50%
BFCC	BankFirst Cap Corp	MS	Not Rated	\$230	\$2,211,177	30	0.23	5.1	1.3%	7.9%	207	na	na	NA	76%
MNSB	MainStreet Bcshs	VA	Buy	\$198	\$1,860,115	36	0.78	8.4	0.1%	4.9%	131	8.9x	7.8x	1.25	96%
BRBS	Blue Ridge Bkshs I	VA	Not Rated	\$232	\$2,879,572	33	0.50	7.6	0.8%	0.8%	107	na	na	NA	79%
PEBK	Peoples Bncp of NC	NC	Not Rated	\$185	\$1,676,290	38	0.17	6.2	0.4%	5.8%	177	na	na	NA	63%
NKSH	Natl Bankshares	VA	Neutral	\$247	\$1,698,946	23	0.19	6.3	0.8%	9.4%	236	10.8x	10.2x	1.34	54%
CIZN	Citizens Hdg Co	MS	Not Rated	\$74	\$1,328,478	27	0.18	1.5	1.1%	5.8%	388	na	na	NA	51%
OPOF	Old Point Finl	VA	Not Rated	\$127	\$1,317,006	37	0.16	7.0	0.1%	3.4%	133	na	na	NA	72%
CPKF	Chesapeake Finl	VA	Not Rated	\$102	\$1,333,947	31	0.12	5.4	1.0%	2.8%	141	6.1x	6.5x	1.12	60%
MBLU	Morris State Bcshs	GA	Not Rated	\$190	\$1,434,899	30	0.42	10.4	1.4%	3.9%	129	na	na	NA	75%
SFDL	Security Federal	SC	Not Rated	\$88	\$1,357,981	NA	0.24	5.3	0.6%	1.6%	121	na	na	NA	45%
MCBI	Mtn Commerce Bncp	TN	Not Rated	\$183	\$1,566,896	28	0.61	7.3	0.2%	6.4%	159	7.4x	6.2x	1.48	97%
COSO	CoastalSouth Bcshs	SC	Not Rated	\$155	\$1,722,915	28	0.52	6.1	0.3%	4.0%	148	na	na	NA	66%
EFSI	Eagle Finl Svcs	VA	Not Rated	\$125	\$1,473,120	39	0.23	6.7	0.5%	2.3%	126	na	na	NA	84%
Source: Janney Research (FIG Group), S&P Global MI					Median	28	0.24	6.2	0.5%	4.4%	145	8.9x	8.9x	1.30	68.8%

Earnings Model

	Annual					2021 Quarterly				2022 Quarterly				2023 Quarterly			
	2020A	2021A	2022A	2023E	2024E	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22A	1Q23E	2Q23E	3Q23E	4Q23E
<u>Income Data: (\$ in Millions)</u>																	
Net Interest Income	\$40.0	\$45.3	\$47.9	\$53.0	\$55.1	\$10.6	\$11.1	\$12.5	\$11.2	\$10.7	\$11.1	\$12.8	\$13.4	\$12.9	\$13.1	\$13.4	\$13.6
Loan Loss Provision	\$3.7	\$0.3	(\$0.15)	\$1.75	\$2.65	\$0.2	\$0.2	\$0.0	(\$0.1)	(\$0.1)	(\$0.1)	\$0.0	\$0.025	\$0.3	\$0.5	\$0.5	\$0.5
Non-Interest Income	\$13.4	\$13.7	\$11.6	\$12.4	\$13.4	\$3.2	\$3.4	\$3.5	\$3.6	\$3.4	\$3.0	\$2.7	\$2.5	\$2.8	\$3.2	\$3.3	\$3.1
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	\$0.0	\$0.0
Gain/Loss on Securities	\$0.1	\$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	\$0.0
One-Time Items	\$0.3	\$0.1	\$0.0	\$0.0	\$0.0	\$0.1	(\$0.2)	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$37.5	\$39.2	\$41.3	\$43.80	\$45.6	\$9.5	\$9.7	\$10.1	\$9.9	\$10.0	\$10.2	\$10.4	\$10.7	\$10.8	\$11.1	\$10.9	\$11.0
Pre-Tax Income	\$12.6	\$19.6	\$18.4	\$19.8	\$20.3	\$4.1	\$4.5	\$6.1	\$5.0	\$4.3	\$3.9	\$5.0	\$5.2	\$4.6	\$4.8	\$5.3	\$5.2
Taxes	\$2.5	\$4.2	\$3.8	\$4.3	\$4.4	\$0.9	\$0.9	\$1.3	\$1.1	\$0.8	\$0.8	\$1.1	\$1.1	\$1.0	\$1.0	\$1.1	\$1.1
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	\$0.0	\$0.0
Net Income	\$10.1	\$15.5	\$14.6	\$15.6	\$15.9	\$3.3	\$3.5	\$4.7	\$3.9	\$3.5	\$3.1	\$4.0	\$4.0	\$3.6	\$3.7	\$4.2	\$4.0
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	\$0.0	\$0.0
Net Income Avail. To Common	\$10.1	\$15.5	\$14.6	\$15.6	\$15.9	\$3.3	\$3.5	\$4.7	\$3.9	\$3.5	\$3.1	\$4.0	\$4.0	\$3.6	\$3.7	\$4.2	\$4.0
Avg. Shares O/S	\$7.5	\$7.5	\$7.6	\$7.6	\$7.6	\$7.5	\$7.5	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6
Earnings Per Share (EPS)	\$1.35	\$2.05	\$1.92	\$2.04	\$2.09	\$0.43	\$0.47	\$0.63	\$0.52	\$0.46	\$0.41	\$0.52	\$0.53	\$0.47	\$0.49	\$0.55	\$0.53
<u>Per Share Data:</u>																	
Reported Book Value	\$18.18	\$18.68	\$15.62	\$17.10	\$18.57	\$17.63	\$18.29	\$18.44	\$18.68	\$16.59	\$15.54	\$15.07	\$15.62	\$15.95	\$16.30	\$16.71	\$17.10
Tangible Book Value	\$16.07	\$16.62	\$13.59	\$15.09	\$16.58	\$15.54	\$16.22	\$16.37	\$16.62	\$14.53	\$13.50	\$13.03	\$13.59	\$13.93	\$14.28	\$14.69	\$15.09
Dividends	\$0.48	\$0.48	\$0.52	\$0.57	\$0.63	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.13	\$0.13	\$0.13	\$0.14	\$0.14	\$0.14	\$0.14
Pre-Tax, Pre-Provision EPS	\$2.12	\$2.63	\$2.40	\$2.83	\$3.01	\$0.56	\$0.64	\$0.78	\$0.65	\$0.55	\$0.51	\$0.66	\$0.68	\$0.64	\$0.68	\$0.77	\$0.74
CORE GAAP EPS	\$1.30	\$2.03	\$1.90	\$2.04	\$2.09	\$0.42	\$0.49	\$0.61	\$0.52	\$0.44	\$0.41	\$0.52	\$0.53	\$0.47	\$0.49	\$0.55	\$0.53
<u>KEY Ratios:</u>																	
Net Interest Margin	3.35%	3.19%	3.11%	3.37%	3.42%	3.20%	3.17%	3.43%	2.97%	2.87%	2.90%	3.26%	3.39%	3.36%	3.35%	3.37%	3.39%
Return on Avg Assets	0.78%	1.02%	0.88%	0.92%	0.92%	0.92%	0.94%	1.22%	0.98%	0.87%	0.76%	0.95%	0.97%	0.87%	0.89%	0.98%	0.94%
Return on Avg Assets core	0.75%	1.01%	0.87%	0.92%	0.92%	0.90%	0.98%	1.18%	0.97%	0.83%	0.76%	0.95%	0.97%	0.87%	0.89%	0.98%	0.94%
Return on Avg Equity	7.84%	11.21%	11.98%	12.58%	11.82%	9.74%	10.49%	13.42%	11.09%	10.31%	10.82%	13.32%	14.04%	12.24%	12.28%	13.28%	12.49%
Ret. On Avg. Tang. Comm. Eq.	8.95%	12.65%	13.72%	14.36%	13.32%	11.02%	11.87%	15.10%	12.48%	11.63%	12.48%	15.31%	16.21%	14.04%	14.04%	15.14%	14.18%
ROATCE core	8.58%	12.56%	13.58%	14.36%	13.32%	10.75%	12.36%	14.60%	12.42%	11.12%	12.50%	15.31%	16.20%	14.04%	14.04%	15.14%	14.18%
Pre-Tax Pre-Provision ROA	1.22%	1.31%	1.10%	1.28%	1.33%	1.18%	1.28%	1.53%	1.23%	1.02%	0.94%	1.21%	1.24%	1.17%	1.24%	1.38%	1.33%
Efficiency Ratio	69.64%	66.04%	69.06%	66.73%	66.25%	68.37%	65.92%	62.14%	66.01%	69.65%	71.55%	66.53%	66.58%	68.62%	67.71%	64.91%	65.81%
Overhead Ratio	2.90%	2.58%	2.50%	2.59%	2.63%	2.66%	2.57%	2.61%	2.48%	2.45%	2.48%	2.50%	2.55%	2.58%	2.62%	2.58%	2.58%
TCE/TA	3.66%	8.00%	6.21%	6.79%	7.24%	7.92%	8.15%	7.99%	8.00%	6.71%	6.12%	6.03%	6.21%	6.37%	6.50%	6.65%	6.79%
<u>Period-End Balances: (\$ in Millions)</u>																	
Earning Assets	\$1,252	\$1,477	\$1,559	\$1,582	\$1,630	\$1,365	\$1,401	\$1,452	\$1,477	\$1,524	\$1,566	\$1,541	\$1,559	\$1,559	\$1,566	\$1,574	\$1,582
Total Assets	\$3,306	\$1,585	\$1,673	\$1,698	\$1,750	\$1,492	\$1,515	\$1,560	\$1,585	\$1,652	\$1,685	\$1,652	\$1,673	\$1,673	\$1,681	\$1,690	\$1,698
Gross Loans	\$844	\$864	\$981	\$1,059	\$1,144	\$869	\$878	\$882	\$864	\$876	\$916	\$950	\$981	\$996	\$1,015	\$1,038	\$1,059
Total Deposits	\$1,189	\$1,361	\$1,385	\$1,406	\$1,445	\$1,271	\$1,290	\$1,334	\$1,361	\$1,431	\$1,469	\$1,436	\$1,385	\$1,385	\$1,392	\$1,399	\$1,406
Intangibles	\$16	\$16	\$15	\$15	\$15	\$16	\$16	\$16	\$16	\$16	\$15	\$15	\$15	\$15	\$15	\$15	\$15
Total Common Equity	\$136	\$141	\$118	\$130	\$141	\$133	\$138	\$139	\$141	\$125	\$118	\$114	\$118	\$120.88	\$124	\$127	\$130

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

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.

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

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

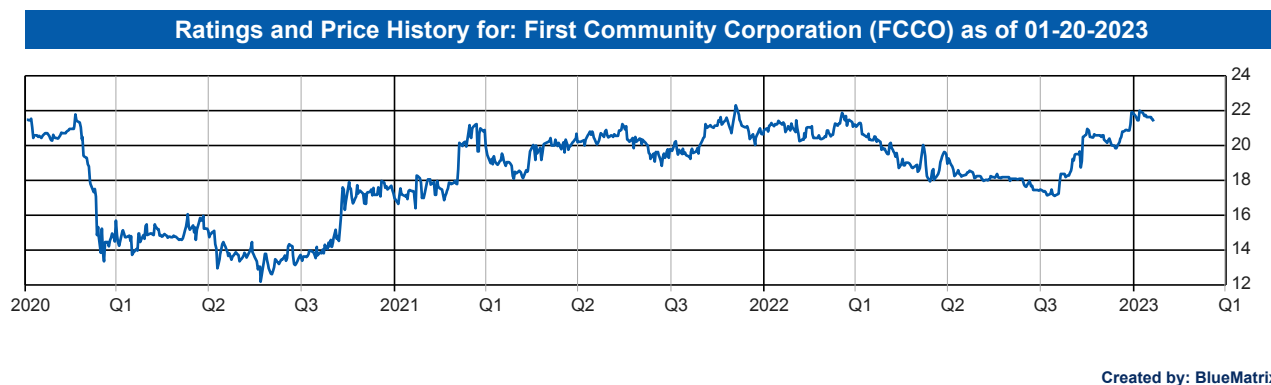
Definition of Ratings

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 12-31-2022

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	126	53.85	26	20.63
NEUTRAL [N]	99	42.31	10	10.10
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	9	3.85	2	22.22

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

Other Disclosures

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