

Banks & Thrifts

Price:	\$18.37
Fair Value Estimate:	\$21.00
52-Week Range:	\$16.97 - \$23.42
Market Cap (MM):	\$139
Shr.O/S-Diluted (mm):	7.6
Average Daily Volume:	7,360
Dividend:	\$0.52
Yield:	2.8%
Tang Book Value:	\$13.03
Tang Comn Equity Ratio:	6.0%
Price/Tangible Book:	1.41x

FYE: Dec	2021A	2022E	2023E
EPS - non-GAAP	\$2.04A	\$1.88E	\$2.09E
Adjusted: Prior EPS - non-GAAP	\$2.05	\$1.78	\$1.92
Adjusted: P/E non-GAAP Ratio:	9.0x	9.8x	8.8x

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.42A	\$0.44A	\$0.48E
Q2	\$0.49A	\$0.41A	\$0.51E
Q3	\$0.61A	\$0.52A	\$0.57E
Q4	\$0.52A	\$0.51E	\$0.53E
Year:	\$2.04A	\$1.88E	\$2.09E

EPS - non-GAAP Adjusted: Our prior 2022 and 2023 EPS were \$1.78 and \$2.01 not \$1.76 and \$1.88 as shown above.



October 24, 2022

First Community Corporation (FCCO) - NEUTRAL

3Q22 Final; Increase Fwd. EPS; Core Trends Remain Solid; Strong Loan Growth & Zero Deposit Beta Highlight Qtr.

PORTFOLIO MANAGER BRIEF

- EPS Outlook; Increase 2022 and 2023 EPS to \$1.88 and \$2.09, respectively. Our upward revisions are driven primarily by a higher NII/NIM forecast, which incorporates in additional rate hikes (+125bps in 4Q22), which are partially offset by increased Loan Loss Provisioning and modestly lower fees and higher expenses.
- Maintain 'Neutral' rating with \$21 FVE which reflects ~10x 2023 EPS and 145% of forward TBV.
- Loan growth was excellent in 3Q (14.7% LQA) and is a key focus as FCCO works to optimize balance sheet efficiency (via improving AEA mix) and profitability. Average Cash and Securities ~40% of AEA down from ~42% last quarter aided by strong loan growth in 3Q.
- Near term loan pipelines (30-45 days) remain solid though the longer-term pipelines are beginning to show some signs of slowing as borrowers are growing more cautious of rising rates and the fear of a possible recession. We also believe the bank will take a more selective approach to credit given uncertain economic environment.

ANALYST NOTES

Consistent with industry trends, Deposits contracted \$33M or 9% LQA due primarily to a reduction in Pure Deposits (-\$23M) which remained strong at 92% of Deposits. Loan to Deposit ratio rose to 66% from 62%. Looking forward, we expect net deposits to be flattish to up slightly as new inflows supported by competitive rates and the October 20th branch opening at Rock Hill more than offset outflows as customers deploy some of their excess liquidity into higher rate products outside the bank.

The quality of the deposit base was on full display in 3Q as FCCO recorded a deposit beta of zero given an impressive ability to lag on deposit pricing. Elevated levels of liquidity; as evidenced by the low Loan to Deposit ratio, have supported the company's ability to lag funding costs. While the expectation is for betas to trend higher with management expecting a cumulative interest deposit beta in the 25% range these results should keep FCCO near the top of the group contributing to positive operating leverage.

Loans betas were 8% 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 27% as ~30% of the Securities book is floating rate.

NIM is expected to increase over the coming quarters as FCCO remixes the balance sheet into higher yielding Loans/Securities and benefits from higher rates via upward repricing on new and renewed loans. FCCO is asset sensitive with the projected benefit in Year two significantly greater than Year 1 (low level variable rate loans). A +100 increase in rates would increase NII by 1.0% in year 1 and 5.1% in year 2. A +200bp increase in NII would boost NII in year 1 by +1.5% and +9.9% in year 2.

We are optimistic mortgage revenues have reached a bottom and are poised to improve in 2023. Notably, FCCO recently added four mortgage producers (3Q) which should bolster future production. We expect volume to be back end loaded in 2023 as we get through seasonally slow 1Q and new produces gain momentum. Given current market conditions we expect FCCO to continue to retain some production on balance sheet and sell ~60% into secondary market.

While the impact of increased rates on AOCI has negatively impacted TCE/TBV in recent quarters the increased unrealized losses in the AFS portfolio due to rising interest rates should accrete back into capital over time as securities mature or prepaid. TCE and TBV are 6.03% and \$13.03, respectively, or a higher 7.91% and \$17.43, excluding impact of AOCI.

The Loan book continues to hold up well, and we are encouraged by low levels of NPAs, and net recoveries YTD. We have increased our provisioning outlook in 2023 to reflect greater economic uncertainty. The release of the remaining COVID reserve should help mitigate the reserve build in the near term. FCCO expects to adopt CECL in January, and we do not expect this to have material impact on reserve coverage.

Janney Research Rating: "Neutral"

Fair Value: \$21.00

Weekly Stock Price Trends

Implied Gain/Loss versus Current Price: 14.3%

2022 Outlook

2022 EPS	\$1.88	10.9x	\$20.52
Cash Dividends	\$0.48	1.0x	<u>\$0.48</u>
			\$21.00

Tangible Book 12/22 \$13.43 1.56x \$21.00

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 \$\$	98.7	101.7	113.4
Total Deposits	1,436.3	1,436.3	1,472.5
CORE Deposits	1,326.0	1,326.0	1,359.4
Premium - Total	3.8%	4.0%	3.4%
Premium - CORE	4.2%	4.3%	3.7%



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 10/23/22	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	\$139	\$1,651,829	33	0.09	6.0	0.3%	3.2%	141	9.7x	8.8x	0.88	63%
FIZN	Frst Ctzns Bcschs	TN	Not Rated	\$220	\$2,303,062	23	NA	6.2	na	0.7%	122	na	na	NA	62%
JMSB	John Marshall Bncp	VA	Not Rated	\$387	\$2,305,540	26	0.60	8.8	0.0%	13.8%	192	na	na	NA	89%
FVCB	FVCBankcorp Inc	VA	Neutral	\$280	\$2,204,984	27	0.64	8.5	0.2%	5.9%	150	10.9x	10.8x	1.29	80%
RVRF	River Finl Corp	AL	Not Rated	\$226	\$2,501,400	29	0.14	4.1	0.2%	6.1%	222	na	na	NA	59%
CBAN	Colony Bkcp Inc	GA	Buy	\$243	\$2,805,912	23	0.24	6.2	1.0%	3.5%	142	10.5x	8.8x	0.82	56%
MCBS	MetroCity Bkschs	GA	Not Rated	\$561	\$3,348,439	23	1.13	10.2	0.6%	11.2%	165	8.1x	8.9x	2.24	111%
FFMH	Frst Farmers	TN	Not Rated	\$116	\$2,012,409	29	0.10	5.0	0.2%	0.9%	116	na	na	NA	50%
BFCC	BankFirst Cap Corp	MS	Not Rated	\$207	\$2,180,490	30	0.25	5.2	1.3%	6.6%	186	na	na	NA	76%
MNSB	MainStreet Bcschs	VA	Buy	\$181	\$1,860,115	36	0.78	8.4	0.1%	3.1%	120	8.1x	7.1x	1.25	96%
BRBS	Blue Ridge Bkschs I	VA	Not Rated	\$247	\$2,799,643	34	0.26	8.2	0.8%	1.0%	108	na	na	NA	79%
PEBK	Peoples Bncp of NC	NC	Not Rated	\$141	\$1,676,895	37	0.14	6.7	0.4%	2.1%	125	na	na	NA	63%
NKSH	Natl Bankshares	VA	Neutral	\$208	\$1,698,946	23	0.19	6.3	0.8%	6.8%	195	9.6x	9.4x	1.35	54%
CIZN	Citizens Hdg Co	MS	Not Rated	\$81	\$1,299,081	27	0.19	1.0	1.1%	7.5%	654	na	na	NA	51%
OPOF	Old Point Finl	VA	Not Rated	\$133	\$1,314,884	37	0.16	7.6	0.1%	3.5%	136	na	na	NA	72%
CPKF	Chesapeake Finl	VA	Not Rated	\$102	\$1,342,049	28	0.09	6.4	1.0%	1.6%	120	7.5x	7.0x	NA	60%
MBLU	Morris State Bcschs	GA	Not Rated	\$188	\$1,431,263	30	0.16	10.4	1.4%	3.8%	128	na	na	NA	75%
SFDL	Security Federal	SC	Not Rated	\$89	\$1,402,150	NA	0.14	5.9	0.6%	0.6%	107	na	na	NA	45%
MCBI	Mtn Commerce Bncp	TN	Not Rated	\$177	\$1,449,240	29	0.26	7.9	0.2%	6.4%	154	7.3x	6.1x	1.48	97%
COSO	CoastalSouth Bcschs	SC	Not Rated	\$132	\$1,713,183	29	0.28	6.1	0.3%	2.0%	124	na	na	NA	66%
EFSI	Eagle Finl Svcs	VA	Not Rated	\$127	\$1,402,513	39	0.12	7.1	0.5%	2.4%	127	na	na	NA	84%
GRRB	Grandsouth Bancorp	SC	Neutral	\$192	\$1,253,967	29	0.49	7.5	0.4%	10.4%	203	12.6x	11.8x	1.27	88%
Source: Janney Research (FIG Group), S&P Global MI					Median	29	0.22	6.7	0.5%	3.5%	136	8.9x	8.9x	1.29	71.7%

Earnings Model

	Annual				2021 Quarterly				2022 Quarterly				2023 Quarterly			
	2020A	2021A	2022E	2023E	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E
<u>Income Data: (\$ in Millions)</u>																
Net Interest Income	\$40.0	\$45.3	\$47.7	\$54.4	\$10.6	\$11.1	\$12.5	\$11.2	\$10.7	\$11.1	\$12.8	\$13.1	\$13.2	\$13.5	\$13.8	\$13.9
Loan Loss Provision	\$3.7	\$0.3	(\$0.05)	\$2.25	\$0.2	\$0.2	\$0.0	(\$0.1)	(\$0.1)	(\$0.1)	\$0.0	\$0.1	\$0.5	\$0.6	\$0.6	\$0.7
Non-Interest Income	\$13.4	\$13.7	\$11.6	\$11.9	\$3.2	\$3.4	\$3.5	\$3.6	\$3.4	\$3.0	\$2.7	\$2.6	\$2.8	\$3.0	\$3.2	\$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	\$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
One-Time Items	\$0.3	\$0.1	\$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	\$41.1	\$43.6	\$9.5	\$9.7	\$10.1	\$9.9	\$10.0	\$10.2	\$10.4	\$10.6	\$10.8	\$11.0	\$10.8	\$11.0
Pre-Tax Income	\$12.6	\$19.6	\$18.3	\$20.4	\$4.1	\$4.5	\$6.1	\$5.0	\$4.3	\$3.9	\$5.0	\$5.0	\$4.7	\$5.0	\$5.6	\$5.2
Taxes	\$2.5	\$4.2	\$3.8	\$4.5	\$0.9	\$0.9	\$1.3	\$1.1	\$0.8	\$0.8	\$1.1	\$1.1	\$1.0	\$1.1	\$1.2	\$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
Net Income	\$10.1	\$15.5	\$14.5	\$15.9	\$3.3	\$3.5	\$4.7	\$3.9	\$3.5	\$3.1	\$4.0	\$3.9	\$3.7	\$3.9	\$4.3	\$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
Net Income Avail. To Common	\$10.1	\$15.5	\$14.5	\$15.9	\$3.3	\$3.5	\$4.7	\$3.9	\$3.5	\$3.1	\$4.0	\$3.9	\$3.7	\$3.9	\$4.3	\$4.0
Avg. Shares O/S	\$7.5	\$7.5	\$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	\$1.90	\$2.09	\$0.43	\$0.47	\$0.63	\$0.52	\$0.46	\$0.41	\$0.52	\$0.51	\$0.48	\$0.51	\$0.57	\$0.53
<u>Per Share Data:</u>																
Reported Book Value	\$18.18	\$18.68	\$15.46	\$16.99	\$17.63	\$18.29	\$18.44	\$18.68	\$16.59	\$15.54	\$15.07	\$15.46	\$15.80	\$16.17	\$16.60	\$16.99
Tangible Book Value	\$16.07	\$16.62	\$13.43	\$14.97	\$15.54	\$16.22	\$16.37	\$16.62	\$14.53	\$13.50	\$13.03	\$13.43	\$13.77	\$14.15	\$14.58	\$14.97
Dividends	\$0.48	\$0.48	\$0.52	\$0.57	\$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	\$2.98	\$0.56	\$0.64	\$0.78	\$0.65	\$0.55	\$0.51	\$0.66	\$0.68	\$0.69	\$0.73	\$0.80	\$0.77
CORE GAAP EPS	\$1.30	\$2.03	\$1.88	\$2.09	\$0.42	\$0.49	\$0.61	\$0.52	\$0.44	\$0.41	\$0.52	\$0.51	\$0.48	\$0.51	\$0.57	\$0.53
<u>KEY Ratios:</u>																
Net Interest Margin	3.35%	3.19%	3.10%	3.47%	3.20%	3.17%	3.43%	2.97%	2.87%	2.90%	3.26%	3.38%	3.44%	3.46%	3.48%	3.50%
Return on Avg Assets	0.78%	1.02%	0.88%	0.95%	0.92%	0.94%	1.22%	0.98%	0.87%	0.76%	0.95%	0.93%	0.89%	0.93%	1.02%	0.95%
Return on Avg Assets core	0.75%	1.01%	0.87%	0.95%	0.90%	0.98%	1.18%	0.97%	0.83%	0.76%	0.95%	0.93%	0.89%	0.93%	1.02%	0.95%
Return on Avg Equity	7.84%	11.21%	11.87%	12.98%	9.74%	10.49%	13.42%	11.09%	10.31%	10.82%	13.32%	13.41%	12.62%	12.85%	13.86%	12.56%
Ret. On Avg. Tang. Comm. Eq.	8.95%	12.65%	13.59%	14.83%	11.02%	11.87%	15.10%	12.48%	11.63%	12.48%	15.31%	15.47%	14.51%	14.71%	15.81%	14.27%
ROATCE core	8.58%	12.56%	13.45%	14.83%	10.75%	12.36%	14.60%	12.42%	11.12%	12.50%	15.31%	15.47%	14.51%	14.71%	15.81%	14.27%
Pre-Tax Pre-Provision ROA	1.22%	1.31%	1.10%	1.35%	1.18%	1.28%	1.53%	1.23%	1.02%	0.94%	1.21%	1.23%	1.25%	1.32%	1.45%	1.38%
Efficiency Ratio	69.64%	66.04%	69.05%	65.58%	68.37%	65.92%	62.14%	66.01%	69.65%	71.55%	66.53%	66.49%	67.11%	66.37%	63.70%	65.23%
Overhead Ratio	2.90%	2.58%	2.49%	2.60%	2.66%	2.57%	2.61%	2.48%	2.45%	2.48%	2.50%	2.54%	2.58%	2.63%	2.58%	2.62%
TCE/TA	3.66%	8.00%	6.21%	6.86%	7.92%	8.15%	7.99%	8.00%	6.71%	6.12%	6.03%	6.21%	6.36%	6.51%	6.70%	6.86%
<u>Period-End Balances: (\$ in Millions)</u>																
Earning Assets	\$1,252	\$1,477	\$1,541	\$1,557	\$1,365	\$1,401	\$1,452	\$1,477	\$1,524	\$1,566	\$1,541	\$1,541	\$1,545	\$1,549	\$1,553	\$1,557
Total Assets	\$3,306	\$1,585	\$1,652	\$1,668	\$1,492	\$1,515	\$1,560	\$1,585	\$1,652	\$1,685	\$1,652	\$1,652	\$1,656	\$1,660	\$1,664	\$1,668
Gross Loans	\$844	\$864	\$967	\$1,034	\$869	\$878	\$882	\$864	\$876	\$916	\$950	\$967	\$979	\$999	\$1,018	\$1,034
Total Deposits	\$1,189	\$1,361	\$1,436	\$1,472	\$1,271	\$1,290	\$1,334	\$1,361	\$1,431	\$1,469	\$1,436	\$1,436	\$1,436	\$1,451	\$1,465	\$1,472
Intangibles	\$16	\$16	\$15	\$15	\$16	\$16	\$16	\$16	\$16	\$15	\$15	\$15	\$15	\$15	\$15	\$15
Total Common Equity	\$136	\$141	\$117	\$129	\$133	\$138	\$139	\$141	\$125	\$118	\$114	\$117	\$119.66	\$122	\$126	\$129

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.

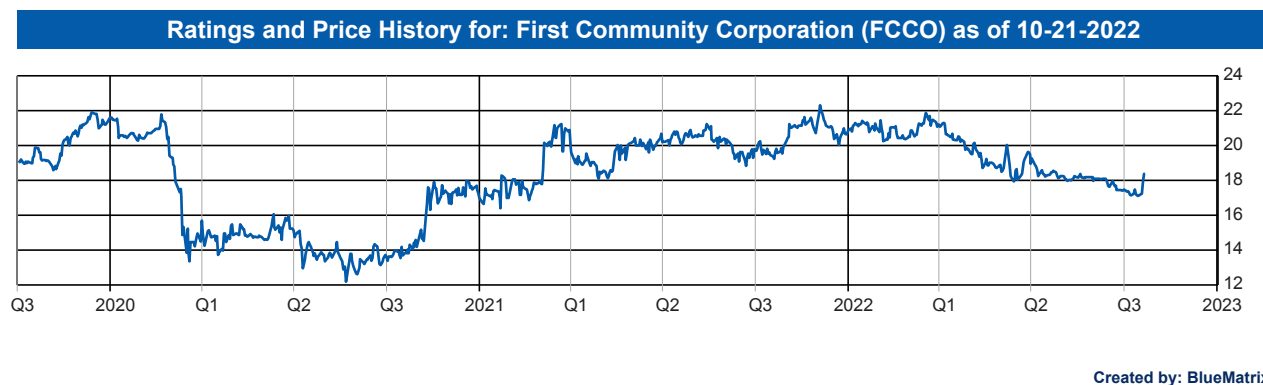
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BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

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 09/30/2022

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	121	55.50	24	19.83
NEUTRAL [N]	88	40.37	6	6.82
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	9	4.13	2	22.22

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

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