

Banks & Thrifts

Price:	\$18.57
Fair Value Estimate:	\$21.00
52-Week Range:	\$17.55 - \$23.42
Market Cap (MM):	\$141
Shr.O/S-Diluted (mm):	7.6
Average Daily Volume:	10,400
Dividend:	\$0.52
Yield:	2.8%
Tang Book Value:	\$13.50
Tang Comn Equity Ratio:	6.1%
Price/Tangible Book:	1.38x

FYE: Dec	2021A	2022E	2023E
EPS - non-GAAP	\$2.05A	\$1.78E	\$1.92E
Adjusted: Prior EPS - non-GAAP		\$1.76	\$1.88
Adjusted: P/E non-GAAP Ratio:	9.1x	10.4x	9.7x

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.43A	\$0.44A	\$0.47E
Q2	\$0.47A	\$0.41A	\$0.47E
Q3	\$0.63A	\$0.46E	\$0.49E
Q4	\$0.52A	\$0.48E	\$0.50E
Year:	\$2.05A	\$1.78E	\$1.92E

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.



July 25, 2022

First Community Corporation (FCCO) - NEUTRAL

Core Trends Remain Solid; Adjust Fwd. EPS – Asset Sensitivity Benefits Expected To Accelerate in 2023

PORTFOLIO MANAGER BRIEF

- 2Q22 results were highlighted by double digit growth in both Loans and Pure Deposits, NIM expansion aided by recent rate increases, solid wealth management revenues, good expense controls and solid credit quality.
- Notably, 2Q22 NIM expanded even as FCCO absorbed 8bps of negative impact from two discrete items in the quarter including 1) an increase in prepayments on variable rate CMO's, which resulted in accelerated amortization of the premium on these Securities (-7bp) and 2) a \$51k reversal of interest income due to an increase in non-accrual loans (-1bp). Elsewhere, a decline in TBV due to the impact of increased rates on AOCI was a headwind.
- Maintain 2022 EPS at \$1.78 and lower 2023 EPS to \$1.92. Our 2023 EPS reduction reflects our outlook for lower mortgage revenues and a slightly higher tax rate, which is partially offset by lower expenses.
- Loan growth is a key focus as FCCO works to deploy excess liquidity into higher yielding loans/securities to optimize balance sheet efficiency and profitability. Avg. Cash/Securities ~41% of AEA (5% & 36%, respectively.)
- Loan growth outlook remains positive as pipelines are solid heading into 2H22. That said, management does expect payoffs to pick up from 2Q22's level plus some caution appears warranted given growing concerns regarding a possible economic slowdown/recession. FCCO's recent expansion in Rock Hill S.C. and expectations the company will continue to portfolio some mortgage loans should help support future loan growth. Our forecast calls for ~4% growth in 2H22 and 8% in 2023.

ANALYST NOTES

Bucking industry trends, FCCO continued to grow deposits, which expanded nearly 3% LQ. Looking forward, we expect deposit growth could moderate as customers begin to deploy some of their excess liquidity tempering new inflows.

Solid loan growth and runoff of some stimulus deposits should help reduce liquidity in the coming quarters, though returning to more normalized levels will be a multiyear event.

Our mortgage outlook calls for lower production and for FCCO to retain more production on its balance sheet rather than sell into the secondary market given current market conditions.

NIM is expected to increase over the coming quarters as 1) FCCO continues to deploy excess liquidity into higher yielding Loans / Securities and 2) liquidity begins to exit the Bank. Further, we expect NIM to benefit from higher rates.

FCCO maintains an asset sensitive balance sheet with the projected benefit in Year 2 significantly greater than Year 1. A +100 increase in rates would increase NII by 1.4% in year 1 and 6.0% in year 2. A +200bp increase in NII would boost NII in year 1 by +2.5% and +11.9% in year 2.

FCCO is optimistic it can outperform historic deposit betas while still protecting relationship deposits aided by current levels of liquidity (low L/D ratio 61%) and its favorable mix of deposits (~32% DDA). FCCO's cumulative deposit beta through 2Q was -2%, and it is targeting an interest-bearing deposit beta of ~25% on future hikes.

While the impact of increased rates on AOCI has negatively impacted 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 6.12% and \$13.50, respectively, or a higher 7.59% and \$17, excluding impact of AOCI.

FCCO reclassified \$225M of Investments to HTM from AFS in 2Q to help counter the impact of rising rates on Tangible Equity. At 2Q22, 41% of the \$570M Securities portfolio is classified at HTM vs. 100% AFS at 1Q22.

The Loan book continues to hold up well, and we are encouraged by low levels of NPAs, and NCOs. Reserve coverage could moderate in the near term given continued strength in credit quality and a further reduction in FCCO's COVID allocation. Criticized & Classified ratios are low and significantly better than peer at 5% and 4.5%, respectively.

FCCO approved a 5% share repurchase program earlier this year, which expires March 31, 2024. Strong balance sheet growth in recent periods and the negative impact of AOCI in 1H22 have reduced TCE. We do not expect FCCO to be aggressive with share repurchases until TCE recovers some.

Weekly Stock Price Trends

Janney Research Rating: "Neutral"

Fair Value: \$21.00

Implied Gain/Loss versus Current Price: 6.0%

2022 Outlook

2022 EPS	\$1.78	11.5x	\$20.52
Cash Dividends	\$0.48	1.0x	<u>\$0.48</u>
			\$21.00

Tangible Book 12/22 \$14.18 1.48x \$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 \$\$	102.1	107.3	117.7
Total Deposits	1,469.0	1,483.7	1,528.7
CORE Deposits	1,352.4	1,365.9	1,407.4
Premium - Total	3.5%	3.4%	3.0%
Premium - CORE	3.8%	3.7%	3.2%



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

Janney Research FSRL Peer Comparables

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 7/24/22	P/E 2022 EPS Consensus	ROA Forecast in 2022 Consensus	Loans-to- Deposits Ratio
Peer Analysis:														
FCCO	First Cmnty Corp	SC	Neutral	\$141	\$1,684,824	33	0.09	6.1	0.3%	2.9%	138	10.5x	0.82	63%
FIZN	Frst Ctzn Bcs	TN	Not Rated	\$255	\$2,290,415	23	NA	7.3	na	2.9%	122	na	NA	62%
JMSB	John Marshall Bncp	VA	Not Rated	\$339	\$2,316,374	25	0.34	9.0	0.0%	9.7%	164	na	NA	89%
FVCB	FVCBankcorp Inc	VA	Neutral	\$263	\$2,305,905	28	0.41	8.3	0.2%	4.3%	138	10.8x	1.25	80%
RVRF	River Finl Corp	AL	Not Rated	\$212	\$2,471,059	29	0.15	5.1	0.2%	4.4%	171	na	NA	59%
CBAN	Colony Bkcp Inc	GA	Buy	\$249	\$2,728,393	25	0.11	6.5	1.0%	3.8%	143	8.8x	0.87	56%
MCBS	MetroCity Bkshs	GA	Not Rated	\$523	\$3,167,850	26	0.40	10.0	0.6%	10.5%	166	7.3x	2.39	111%
FFMH	Frst Farmers	TN	Not Rated	\$113	\$2,144,206	33	0.08	5.4	0.2%	(0.1%)	98	na	NA	50%
BFCC	BankFirst Cap Corp	MS	Not Rated	\$151	\$2,024,848	28	0.27	5.5	1.3%	3.0%	140	na	NA	76%
MNSB	MainStreet Bcs	VA	Buy	\$164	\$1,761,748	36	0.46	9.0	0.1%	1.4%	109	8.5x	1.22	96%
BRBS	Blue Ridge Bkshs I	VA	Not Rated	\$276	\$2,724,584	33	0.27	9.1	0.8%	1.7%	113	na	NA	79%
PEBK	Peoples Bncp of NC	NC	Not Rated	\$154	\$1,662,659	38	0.15	7.5	0.4%	2.1%	123	na	NA	63%
NKSH	Natl Bankshares	VA	Neutral	\$190	\$1,729,588	21	0.17	7.6	0.8%	4.0%	146	9.1x	1.27	54%
CIZN	Citizens Hdg Co	MS	Not Rated	\$100	\$1,348,692	27	0.20	3.7	1.1%	5.3%	202	na	NA	51%
OPOF	Old Point Finl	VA	Not Rated	\$125	\$1,325,385	33	0.18	8.0	0.1%	1.9%	118	na	NA	72%
CPKF	Chesapeake Finl	VA	Not Rated	\$119	\$1,342,049	28	NA	9.1	1.0%	(0.7%)	118	8.7x	0.99	60%
MBLU	Morris State Bcs	GA	Not Rated	\$172	\$1,438,691	28	0.15	9.9	1.4%	2.8%	121	na	NA	75%
SFDL	Security Federal	SC	Not Rated	\$89	\$1,299,789	NA	0.12	7.3	0.6%	(0.6%)	94	na	NA	45%
MCBI	Mtn Commerce Bncp	TN	Not Rated	\$177	\$1,398,772	29	0.18	8.4	0.2%	6.2%	150	7.9x	NA	97%
COSO	CoastalSouth Bcs	SC	Not Rated	\$176	\$1,669,622	28	0.25	6.6	0.3%	3.1%	130	na	NA	66%
EFSI	Eagle Finl Svcs	VA	Not Rated	\$123	\$1,374,295	40	0.12	7.4	0.5%	1.8%	120	na	NA	84%
GRRB	Grandsouth Bancorp	SC	Neutral	\$163	\$1,254,032	27	0.27	7.5	0.4%	7.4%	173	10.7x	1.27	88%
Source: Janney Research (FIG Group), S&P Global MI					Median	28	0.18	7.5	0.5%	3.0%	130	8.8x	1.25	71.7%

First Community Corporation (FCCO)
Updated on 7/22/22
Earnings Model

	Annual				2020 Quarterly				2021 Quarterly				2022 Quarterly			
	2020A	2021A	2022E	2023E	1Q20A	2Q20A	3Q20A	4Q20A	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22E	4Q22E
<u>Income Data: (\$ in Millions)</u>																
Net Interest Income	\$40.0	\$45.3	\$45.9	\$50.6	\$9.4	\$9.7	\$10.2	\$10.7	\$10.6	\$11.1	\$12.5	\$11.2	\$10.7	\$11.1	\$11.9	\$12.2
Loan Loss Provision	\$3.7	\$0.3	\$0.11	\$1.25	\$1.1	\$1.3	\$1.1	\$0.3	\$0.2	\$0.2	\$0.0	(\$0.1)	(\$0.1)	(\$0.1)	\$0.1	\$0.2
Non-Interest Income	\$13.4	\$13.7	\$12.3	\$12.6	\$2.9	\$3.4	\$3.4	\$3.6	\$3.2	\$3.4	\$3.5	\$3.6	\$3.4	\$3.0	\$3.0	\$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	\$0.0
Gain/Loss on Securities	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$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	\$0.0	\$0.3	\$0.0	\$0.1	(\$0.2)	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$37.5	\$39.2	\$40.8	\$43.2	\$9.0	\$9.1	\$9.7	\$9.7	\$9.5	\$9.7	\$10.1	\$9.9	\$10.0	\$10.2	\$10.3	\$10.3
Pre-Tax Income	\$12.6	\$19.6	\$17.3	\$18.8	\$2.2	\$2.7	\$3.3	\$4.4	\$4.1	\$4.5	\$6.1	\$5.0	\$4.3	\$3.9	\$4.4	\$4.7
Taxes	\$2.5	\$4.2	\$3.6	\$4.1	\$0.4	\$0.5	\$0.6	\$0.9	\$0.9	\$0.9	\$1.3	\$1.1	\$0.8	\$0.8	\$0.9	\$1.0
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	\$13.7	\$14.6	\$1.8	\$2.2	\$2.7	\$3.4	\$3.3	\$3.5	\$4.7	\$3.9	\$3.5	\$3.1	\$3.5	\$3.6
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	\$0.0
Net Income Avail. To Common	\$10.1	\$15.5	\$13.7	\$14.6	\$1.8	\$2.2	\$2.7	\$3.4	\$3.3	\$3.5	\$4.7	\$3.9	\$3.5	\$3.1	\$3.5	\$3.6
Avg. Shares O/S	\$7.5	\$7.5	\$7.6	\$7.6	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6	\$7.6
Earnings Per Share (EPS)	\$1.35	\$2.05	\$1.80	\$1.92	\$0.24	\$0.30	\$0.35	\$0.46	\$0.43	\$0.47	\$0.63	\$0.52	\$0.46	\$0.41	\$0.46	\$0.48
<u>Per Share Data:</u>																
Reported Book Value	\$18.18	\$18.68	\$16.22	\$17.58	\$16.70	\$17.47	\$17.78	\$18.18	\$17.63	\$18.29	\$18.44	\$18.68	\$16.59	\$15.54	\$15.87	\$16.22
Tangible Book Value	\$16.07	\$16.62	\$14.18	\$15.56	\$14.55	\$15.34	\$15.67	\$16.07	\$15.54	\$16.22	\$16.37	\$16.62	\$14.53	\$13.50	\$13.83	\$14.18
Dividends	\$0.48	\$0.48	\$0.52	\$0.57	\$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	\$2.63	\$2.29	\$2.63	\$0.44	\$0.54	\$0.52	\$0.62	\$0.56	\$0.64	\$0.78	\$0.65	\$0.55	\$0.51	\$0.59	\$0.64
CORE GAAP EPS	\$1.30	\$2.03	\$1.78	\$1.92	\$0.23	\$0.30	\$0.31	\$0.46	\$0.42	\$0.49	\$0.61	\$0.52	\$0.44	\$0.41	\$0.46	\$0.48
<u>KEY Ratios:</u>																
Net Interest Margin	3.35%	3.19%	3.01%	3.29%	3.52%	3.35%	3.24%	3.28%	3.20%	3.17%	3.43%	2.97%	2.87%	2.90%	3.08%	3.19%
Return on Avg Assets	0.78%	1.02%	0.84%	0.88%	0.61%	0.70%	0.78%	0.98%	0.92%	0.94%	1.22%	0.98%	0.87%	0.77%	0.84%	0.88%
Return on Avg Assets core	0.75%	1.01%	0.83%	0.88%	0.59%	0.70%	0.69%	0.98%	0.90%	0.98%	1.18%	0.97%	0.83%	0.77%	0.84%	0.88%
Return on Avg Equity	7.84%	11.21%	11.12%	11.45%	5.84%	7.03%	8.01%	10.26%	9.74%	10.49%	13.42%	11.09%	10.31%	10.94%	11.57%	11.87%
Ret. On Avg. Tang. Comm. Eq.	8.95%	12.65%	12.71%	13.01%	6.72%	8.04%	9.11%	11.64%	11.02%	11.87%	15.10%	12.48%	11.63%	12.62%	13.30%	13.59%
ROATCE core	8.58%	12.56%	12.57%	13.01%	6.42%	8.04%	7.99%	11.64%	10.75%	12.36%	14.60%	12.42%	11.12%	12.64%	13.30%	13.59%
Pre-Tax Pre-Provision ROA	1.22%	1.31%	1.06%	1.21%	1.12%	1.26%	1.16%	1.33%	1.18%	1.28%	1.53%	1.23%	1.02%	0.94%	1.10%	1.19%
Efficiency Ratio	69.64%	66.04%	69.81%	68.06%	71.94%	67.70%	70.10%	66.58%	68.37%	65.92%	62.14%	66.01%	69.65%	71.55%	69.28%	67.65%
Overhead Ratio	2.90%	2.58%	2.49%	2.61%	3.07%	2.88%	2.89%	2.77%	2.66%	2.57%	2.61%	2.48%	2.45%	2.48%	2.51%	2.52%
TCE/TA	3.66%	8.00%	6.46%	6.93%	9.29%	8.78%	8.59%	8.74%	7.92%	8.15%	7.99%	8.00%	6.71%	6.12%	6.27%	6.46%
TCE/RWA	12.85%	13.19%	10.54%	11.31%	12.68%	12.92%	12.93%	12.85%	12.57%	13.14%	12.93%	13.19%	11.26%	9.98%	10.22%	10.54%
TCE/TA (Ex PPP)					9.29%	9.11%	8.92%	9.01%	8.27%	8.42%	8.04%	8.00%	6.71%	6.12%	6.27%	6.46%
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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The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

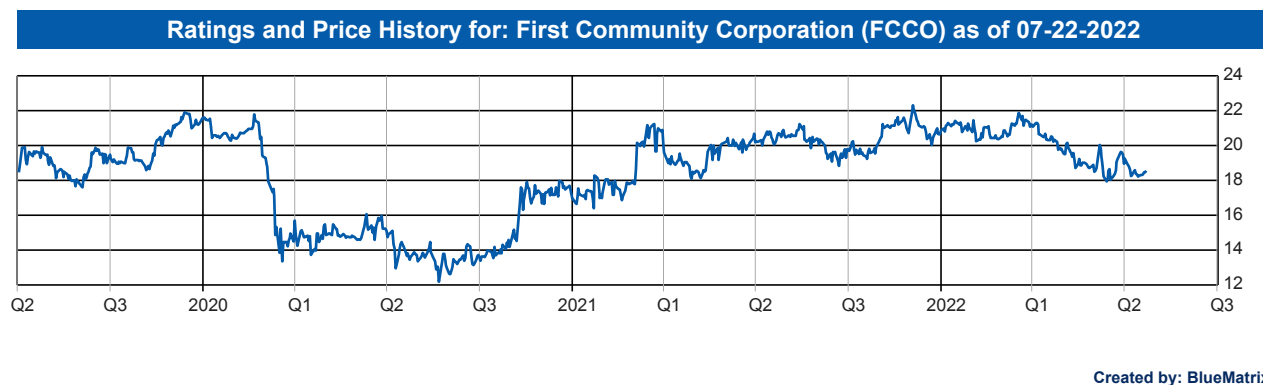
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BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

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 06/30/2022

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	119	50.85	30	25.21
NEUTRAL [N]	78	33.33	8	10.26
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	37	15.81	6	16.22

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

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