

Banks & Thrifts

Price:	\$14.90
Fair Value Estimate:	\$17.00
52-Week Range:	\$12.60 - \$22.00
Market Cap (MM):	\$111
Shr.O/S-Diluted (mm):	7.5
Average Daily Volume:	17,965
Dividend:	\$0.48
Yield:	3.2%
Tang Book Value:	\$14.55
Tang Comn Equity Ratio:	9.3%
Price/Tangible Book:	(6.94)x

FYE: Dec	2019A	2020E	2021E
EPS - non-GAAP	\$1.47A	\$0.95E	\$1.07E
Adjusted: Prior EPS - non-GAAP		\$1.26	\$1.25
Adjusted: P/E non-GAAP Ratio:	10.1x	15.7x	13.9x

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.33A	\$0.23A	\$0.21E
Q2	\$0.36A	\$0.17E	\$0.27E
Q3	\$0.39A	\$0.28E	\$0.31E
Q4	\$0.38A	\$0.27E	\$0.28E

April 28, 2020

First Community Corporation (FCCO) - NEUTRAL

Strong Capital and Earnings Capacity Support Future Reserve Building For COVID-19

PORTFOLIO MANAGER BRIEF

- We have revised our EPS outlook to address further reserve building for potential credit risks and a possible recession from the COVID-19 shutdown. Lower 2020 and 2021 EPS to \$0.95 and \$1.07, respectively.
- FCCO is on track to increase Reserves to meet our stressed scenario for an economic downturn (Page 2). We expect capital to remain strong with a CET-1 ratio over 13% in each quarter through 2021.
- FCCO is an active participant in the SBA's Paycheck Protection Program (PPP) with \$15M allocated in the first phase. We expect the fees earned can support future reserve building and do not drive EPS, but rather permit credit risk to be addressed. We forecast the bulk of the fees to be collected in 2Q/3Q.
- FCCO has minimal exposure to the hardest hit industries including Hotels (3.6%), Restaurants (2.4%), Assisted Living (1.2%), and Retail (10%). FCCO has granted deferrals on 21% of its Loans, the vast majority of which are not expected to result in future problems based on current analysis.

ANALYST NOTES

We believe potential future losses from the COVID-19 pandemic could be lower than peer given FCCO's strong underwriting, limited exposure to higher risk segments, and low loan to values and secondary sources of repayment on much of its RE exposure.

Our stressed loss scenario peg possible provisions at about \$8M and PPNR-Pre-Tax Pre Provision Net Revenue is expected to be \$12-13M over the next 12 months

Loan activity is expected to remain muted in the near-term as clients are on hold given the COVID-19 pandemic. Low to mid-single digit growth in 2021 should be reasonable as the economy begins to open in the next couple weeks.

Core NIM is expected to come under pressure in 2Q20 as a full quarter impact of the Fed's emergency rate cuts on its Asset sensitive balance sheet are realized. NIM could moderate 10-12bps. NIM expansion is likely in 2021 as loan growth resumes and balance sheet remixing occurs (more Loans /less Securities).

Mortgage activity is expected to remain strong in 2Q aided by continued high refinance activity. Some slowdown in Mortgage is possible in 3Q as fewer contracts were likely executed during the national shutdown with a pick-up in 4Q as activity picks up following the re-opening of the country.



Expenses are expected to remain well controlled until the depth of the economic strain becomes clearer. We forecast 2020 annual expenses of \$36.3M.

	Balance	Loss Estimate	% Loss	Total Default %	Combined Loss %
C&I: Commercial & Industrial	45,813	2,749	6.0%	14%	43%
C&I: Unused Commitments	10,330	258	2.5%	8%	30%
ADC: Construction	85,717	1,264	1.5%	8%	20%
CRE: Owner-Occupied	230,834	3,970	1.7%	9%	20%
CRE: Other, Non Own.Occ.	205,193	5,148	2.5%	12%	21%
Multifamily	22,662	340	1.5%	8%	20%
HELOC	30,213	755	2.5%	13%	19%
Residential MTG 1st Lien	108,640	652	0.6%	10%	6%
Residential MTG 2nd Lien	2,429	65	2.7%	14%	20%
Credit Cards	0	0	na	19%	na
Other Revolving	1,550	185	11.9%	19%	62%
Other Consumer	8,164	408	5.0%	19%	26%
Auto	210	14	6.5%	18%	36%
Ag/Farm Loans	986	25	2.5%	12%	21%
State/Political	5,629	115	2.0%	14%	15%
Other Loans	143	4	3.0%	11%	27%
Total Lease Fin	0	0	na	14%	na
TOTALS	758,513	15,953	2.1%	10%	21%
Loan Loss Reserves	7,694	3-31-20			
CECL @ 3/31	0				
Possible Provisions	8,259				

The medical and economic crisis that began in March 2020 leads us to consider what could occur to the FCCO portfolio under a stressed scenario. The company has strong capital and earnings capacity to weather this crisis with higher charge offs in future periods.

We assess Default and Loss-Given-Default rates via the table here which pegs about \$8M in possible provisions by FCCO. Our EPS model factors large provision/reserve build in 2020-21.

Below, we illustrate how the CET-1 regulatory capital ratio remains at or above 13% after common dividends and share repurchases over the next 12 months. This confirms zero threat to FCCO's dividend and a sustained "well-capitalized" status.

We have these losses embedded into our EPS model in 2020 and 2021, offset by fees earned on the SBA/Treasury PPP program.

FCCO Capital Ratio Post Dividends - MAR 2020

PPNR Next 4 Qtrs	12,901	
Risk-Weighted Assets (RWA)	856,240	
Common EQ-Tier 1 (CET-1)	114,308	13.35% 03/31/2020 CET-1 Ratio
Dividends Next 4 Qtrs	3,671	
Possible Provisions	8,259	
PF CET-1 Mar. 2021	114,619	
PF Risk-Wtd. Assets (RWA)	856,565	13.38% PF 3-31-21 CET-1 Ratio

Notes: CECL estimate (if added) should exceed 10-K disclosure, RWA reduced by Possible Provisions

Source: Janney Research estimates, S&P MI, Bloomberg LP, FDIC Call/Fed Y-9 filings at 12-31-19

Janney Research Rating: "Neutral"

Fair Value: \$17.00

Implied Gain/Loss versus Current Price: 14.1%

2021 Outlook

2021 EPS	\$1.07	15.4x	\$16.47
Cash Dividends	\$0.53	1.0x	<u>\$0.53</u>
			\$17.00

Tangible Book 12/21 \$15.55 1.09x \$17.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Premium Analysis

	Current	Dec-20	Dec-21
Market-Cap	827.2	852.1	877.6
TCE in \$\$	108.6	111.6	116.1
Total Deposits	986.6	1,014.2	1,060.5
CORE Deposits	849.8	877.4	923.7
Premium - Total	72.8%	73.0%	71.8%
Premium - CORE	84.6%	84.4%	82.4%

Background and Risks

Headquartered in Lexington, South Carolina, First Community (FCCO) is a ~\$1.2 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.

Capital Ratios For Several Different Loss Scenarios

<u>%Loss:</u>	<u>2.00%</u>	<u>3.00%</u>	<u>4.00%</u>	<u>5.00%</u>
Estimated Credit Losses	\$14.74	\$22.11	\$29.48	\$36.85
Credit Losses Remaining	\$13.67	\$21.04	\$28.41	\$35.78
CET-1 Ratio - 2019A	13.47%	13.47%	13.47%	13.47%
CET-1 Ratio - 1Q20A	13.35%	13.35%	13.35%	13.35%
CET-1 Ratio - 2020 Pro Forma	12.63%	11.95%	11.28%	10.61%
TCE Ratio - 2019A	9.02%	9.02%	9.02%	9.02%
TCE Ratio - 1Q20A	9.29%	9.29%	9.29%	9.29%
TCE Ratio - Adjusted 2020E	8.76%	8.26%	7.77%	7.28%
TBV - 2019A	\$13.99	\$13.99	\$13.99	\$13.99
TBV - 1Q20	\$14.55	\$14.55	\$14.55	\$14.55
TBV - 2020 Pro Forma	\$13.87	\$13.09	\$12.30	\$11.52

FCCO Peer Comparison

Company Name		State	Rating	Market Cap. (\$M)	Total Assets (\$000) MRQ	DDA % MRQ	Cost of Deposits MRQ	TCE Ratio MRQ	Core Deposit Premium Today	Price-to- T.Book 4/27/20	P/E 2020 EPS Consensus	ROA Forecast in 2020 Consensus	Loans-to- Deposits Ratio
Peer Analysis:													
FCCO	First Cmnty Corp	SC	Neutral	\$111	\$1,185,307	28	0.42	9.3	0.3%	102	15.4x	0.69	77%
BCBP	BCB Bncp Inc	NJ	Not Rated	\$176	\$2,907,468	12	1.53	7.2	(2.7%)	84	11.5x	0.61	101%
BCML	BayCom Corp	CA	Buy	\$137	\$2,168,814	34	0.54	9.7	(4.5%)	67	6.3x	0.96	82%
CIVB	Civista Bcshts Inc	OH	Not Rated	\$239	\$2,575,856	41	0.40	9.8	(0.3%)	98	9.0x	1.23	101%
CSTR	CapStar Finl Hlgs	TN	Not Rated	\$183	\$2,037,201	18	1.28	11.5	(3.1%)	80	10.5x	0.93	82%
EBMT	Eagle Bancorp	MT	Buy	\$109	\$1,054,260	25	0.57	9.9	0.8%	104	8.7x	1.10	95%
ESXB	Cnty Bnk Trst Corp	VA	Neutral	\$126	\$1,453,540	15	1.14	10.7	(5.1%)	81	16.6x	0.87	91%
EVBN	Evans Bancorp Inc	NY	Not Rated	\$128	\$1,460,230	21	0.96	9.4	(0.8%)	94	7.9x	1.02	97%
FBIZ	Frst Bus Fnl Svcs	WI	Neutral	\$145	\$2,196,374	20	1.10	8.4	(3.0%)	79	10.8x	0.74	114%
FCCO	First Cmnty Corp	SC	Neutral	\$111	\$1,185,307	28	0.42	9.3	0.3%	102	15.4x	0.69	77%
FFNW	Frst Finl NW	WA	Buy	\$92	\$1,341,885	5	1.86	11.5	(11.9%)	60	11.9x	0.70	108%
HBMD	Howard Bncp Inc	MD	Not Rated	\$188	\$2,374,619	27	0.90	10.4	(4.1%)	80	13.1x	0.74	104%
ICBK	Cnty Bncp Inc	WI	Neutral	\$118	\$1,378,779	13	1.73	11.6	(7.4%)	77	11.0x	0.77	95%
ISTR	Investar Hldg Corp	LA	Buy	\$136	\$2,199,369	20	1.17	9.3	(6.3%)	68	7.3x	0.78	100%
LCNB	LCNB Corp	OH	Not Rated	\$185	\$1,636,280	25	0.63	10.9	1.4%	108	9.8x	1.13	90%
NRIM	Northrim BanCorp	AK	Neutral	\$157	\$1,643,996	33	0.44	11.7	(2.5%)	84	11.4x	0.83	77%
ORRF	Orrstown Finl Svcs	PA	Not Rated	\$158	\$2,387,488	14	0.93	7.8	(2.2%)	85	9.7x	0.72	83%
PMBC	Pacific Mercantile	CA	Not Rated	\$78	\$1,416,154	33	1.09	NA	na	na	14.4x	0.77	96%
PROV	Provident Finl	CA	Buy	\$97	\$1,107,387	10	0.37	11.2	(4.2%)	78	10.4x	0.83	112%
RVSF	Riverview Bancorp	WA	Not Rated	\$117	\$1,184,100	28	0.38	10.2	(0.1%)	100	7.2x	1.39	90%
TCFC	Community Finl Cp	MD	Not Rated	\$124	\$1,797,536	16	1.00	9.4	(4.0%)	74	8.4x	0.94	91%
Source: Janney Research (FIG Group), S&P Global MI					<u>Median</u>	<u>20</u>	<u>0.94</u>	<u>9.9</u>	<u>-3.0%</u>	<u>81</u>	<u>10.4x</u>	<u>0.83</u>	<u>95.0%</u>

Earnings Model

	Annual			2019 Quarterly				2020 Quarterly				2021 Quarterly			
	2019A	2020E	2021E	1Q19A	2Q19A	3Q19A	4Q19A	1Q20A	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E
<u>Income Data: (\$ in Millions)</u>															
Net Interest Income	\$36.8	\$37.5	\$37.4	\$9.0	\$9.1	\$9.4	\$9.4	\$9.4	\$9.1	\$9.7	\$9.3	\$9.1	\$9.2	\$9.5	\$9.6
Loan Loss Provision	\$0.1	\$4.3	\$2.5	\$0.1	\$0.0	\$0.0	\$0.0	\$1.1	\$1.50	\$1.00	\$0.75	\$0.6	\$0.6	\$0.6	\$0.6
Non-Interest Income	\$11.9	\$12.2	\$12.5	\$2.5	\$3.0	\$3.1	\$3.2	\$2.9	\$3.2	\$3.0	\$3.1	\$2.9	\$3.3	\$3.3	\$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
Gain/Loss on Securities	\$0.1	\$0.0	\$0.0	(\$0.0)	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
One-Time Items	(\$0.4)	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.1)	(\$0.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-Interest Expense	\$34.5	\$36.3	\$37.3	\$8.3	\$8.6	\$8.7	\$8.9	\$9.0	\$9.1	\$9.1	\$9.0	\$9.3	\$9.4	\$9.3	\$9.3
Pre-Tax Income	\$13.8	\$9.1	\$10.1	\$3.1	\$3.7	\$3.7	\$3.4	\$2.2	\$1.6	\$2.6	\$2.6	\$2.0	\$2.6	\$2.9	\$2.6
Taxes	\$2.9	\$1.9	\$2.1	\$0.6	\$0.8	\$0.8	\$0.7	\$0.4	\$0.3	\$0.5	\$0.6	\$0.4	\$0.5	\$0.6	\$0.6
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	\$11.0	\$7.2	\$8.0	\$2.5	\$2.9	\$2.90	\$2.7	\$1.8	\$1.3	\$2.1	\$2.0	\$1.6	\$2.0	\$2.3	\$2.1
Preferred Dividend	\$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	\$0.0
Net Income Avail. To Common	\$11.0	\$7.2	\$8.0	\$2.5	\$2.9	\$2.9	\$2.7	\$1.8	\$1.3	\$2.1	\$2.0	\$1.6	\$2.0	\$2.3	\$2.1
Avg. Shares O/S	\$7.6	\$7.5	\$7.5	\$7.7	\$7.7	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5	\$7.5
Earnings Per Share (EPS)	\$1.45	\$0.96	\$1.07	\$0.32	\$0.37	\$0.39	\$0.36	\$0.24	\$0.17	\$0.28	\$0.27	\$0.21	\$0.27	\$0.31	\$0.28
<u>Per Share Data:</u>															
Reported Book Value	\$16.16	\$17.06	\$17.60	\$15.19	\$15.64	\$16.03	\$16.16	\$16.70	\$16.75	\$16.91	\$17.06	\$17.14	\$17.28	\$17.46	\$17.60
Tangible Book Value	\$13.99	\$14.96	\$15.55	\$13.03	\$13.46	\$13.84	\$13.99	\$14.55	\$14.62	\$14.79	\$14.96	\$15.05	\$15.21	\$15.39	\$15.55
Dividends	\$0.45	\$0.48	\$0.53	\$0.11	\$0.11	\$0.11	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.13	\$0.13	\$0.13
Pre-Tax, Pre-Provision EPS	\$1.88	\$1.79	\$1.69	\$0.42	\$0.46	\$0.50	\$0.50	\$0.45	\$0.43	\$0.49	\$0.45	\$0.36	\$0.43	\$0.48	\$0.44
CORE GAAP EPS	\$1.47	\$0.95	\$1.07	\$0.33	\$0.36	\$0.39	\$0.38	\$0.23	\$0.17	\$0.28	\$0.27	\$0.21	\$0.27	\$0.31	\$0.28
<u>KEY Ratios:</u>															
Net Interest Margin	3.62%	3.43%	3.41%	3.68%	3.64%	3.62%	3.53%	3.52%	3.40%	3.39%	3.40%	3.40%	3.40%	3.42%	3.42%
Return on Avg Assets	0.98%	0.61%	0.66%	0.92%	1.04%	1.03%	0.94%	0.61%	0.44%	0.70%	0.69%	0.54%	0.67%	0.76%	0.67%
Return on Avg Equity	9.38%	5.74%	6.18%	8.77%	9.83%	9.89%	9.02%	5.81%	4.16%	6.56%	6.43%	5.03%	6.30%	7.06%	6.32%
Return on Tang. Comm. Eq.	10.87%	6.69%	7.11%	10.33%	11.74%	11.64%	10.69%	6.86%	5.01%	7.71%	7.54%	5.95%	7.37%	8.20%	7.35%
Pre-Tax Pre-Provision ROA	1.28%	1.13%	1.04%	1.20%	1.27%	1.32%	1.29%	1.14%	1.08%	1.23%	1.14%	0.91%	1.08%	1.18%	1.08%
Efficiency Ratio	69.67%	72.18%	73.90%	70.18%	69.55%	67.91%	69.09%	71.94%	73.09%	70.34%	71.61%	76.47%	73.32%	71.31%	72.83%
Overhead Ratio	3.09%	3.07%	3.09%	3.06%	3.13%	3.09%	3.08%	3.07%	3.11%	3.08%	3.03%	3.12%	3.12%	3.07%	3.04%
TCE/TA	9.02%	9.45%	9.53%	9.24%	9.19%	9.20%	9.02%	9.29%	9.21%	9.39%	9.45%	9.46%	9.50%	9.53%	9.53%
<u>Period-End Balances: (\$ in Millions)</u>															
Earning Assets	\$1,070	\$1,089	\$1,122	\$997	\$1,013	\$1,026	\$1,070	\$1,078	\$1,093	\$1,084	\$1,089	\$1,094	\$1,100	\$1,111	\$1,122
Total Assets	\$1,170	\$1,197	\$1,234	\$1,097	\$1,116	\$1,130	\$1,170	\$1,185	\$1,200	\$1,191	\$1,197	\$1,203	\$1,209	\$1,221	\$1,234
Gross Loans	\$737	\$759	\$794	\$718	\$727	\$735	\$737	\$750	\$765	\$751	\$759	\$763	\$774	\$786	\$794
Total Deposits	\$988	\$1,014	\$1,061	\$920	\$937	\$949	\$988	\$987	\$1,007	\$1,002	\$1,014	\$1,019	\$1,035	\$1,050	\$1,061
Intangibles	\$16	\$16	\$15	\$17	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$16	\$15	\$15
Total Common Equity	\$120	\$127	\$131	\$116	\$117	\$119	\$120	\$125	\$125	\$126	\$127	\$127.94	\$129	\$130	\$131

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.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney or its affiliate FIG may act as principal for its own account or as agent for both buyer and seller in connection with the purchase or sale of any security discussed herein.

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

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 03/31/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	169	51.84	35	20.71
NEUTRAL [N]	156	47.85	22	14.10
SELL [S]	1	0.31	0	0.00

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

Other Disclosures

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

This report is for your information only and is not an offer to sell or a solicitation of an offer to buy the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal or the entity that provided this report to them, should they desire further information. The information in this report has been obtained or derived from sources believed by Janney Montgomery Scott LLC, to be reliable. Janney Montgomery Scott LLC, however, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Janney Montgomery Scott LLC at this time and are subject to change without notice.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however, our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views. Supporting information related to the recommendation, if any, made in the research report is available upon request.