

Banks & Thrifts

Price:	\$19.68
Fair Value Estimate:	\$21.00
52-Week Range:	\$17.08 - \$26.25
Market Cap (MM):	\$152
Shr.O/S-Diluted (mm):	7.7
Average Daily Volume:	45,947
Dividend:	\$0.44
Yield:	2.2%
Tang Book Value:	\$13.46
Tang Comn Equity Ratio:	9.2%
Price/Tangible Book:	1.46x

FYE: Dec	2018A	2019E	2020E
EPS - non-GAAP	\$1.48A	\$1.42E	\$1.46E
Adjusted: Prior EPS - non-GAAP		\$1.44	\$1.53
Adjusted: P/E non-GAAP Ratio:	13.3x	13.9x	13.5x

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.35A	\$0.33A	\$0.32E
Q2	\$0.38A	\$0.36A	\$0.37E
Q3	\$0.37A	\$0.38E	\$0.40E
Q4	\$0.38A	\$0.35E	\$0.36E



July 18, 2019

First Community Corporation (FCCO) - NEUTRAL

Trim EPS on Lower NIM Outlook; Franchise Investments to Drive Greater Profitability in 2020

PORTFOLIO MANAGER BRIEF

- Maintain Neutral w/ FV of \$21; ~10x '19 EPS or ~145% of Fwd. TBV
- Lower 2019/2020 EPS to \$1.42 and \$1.46, respectively.
- Outlook for continued payoffs contributes to modest reduction in loan growth forecast; Core NIM expected to moderate given declining rate environment. Balance sheet remix should help mitigate NIM pressure.
- Completion of share repurchase authorization to help future EPS. Additional buyback capacity exits w/TCE > 9%.

ANALYST NOTES

FCCO is 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, we believe this remix will be a multi-year endeavor given the competitive landscape, the company's strong credit discipline and a potential economic slowdown. Loan growth picked up in 1Q19 though payoffs remain a headwind. Based on YTD results and our outlook elevated payoffs continue, we are trimming our growth forecast to 4% and 6% in 2019 and 2020. Geographically, Columbia & the Midlands drove 1H19 growth with Augusta and Greenville expected to pick up prospectively.

Core NIM (ex A/Y) moderated 3bp in 2Q19 to 3.59%. Looking forward, we expect core NIM to drop 4bp in 2H19 to ~3.55% given our outlook for a 25bp rate cut in July with some further compression forecast in 2020 given our outlook for a second rate cut in December. We expect asset yields to come under pressure if rates fall with some lag effect on lowering deposits costs. A continued remix of the balance sheet (securities into loans) is factored into our outlook and should help mitigate NIM pressure. We continue to believe most of the loan growth will be funded by the Securities book. FCCO is targeting an 80% loan/earning asset ratio over time. Our EPS forecast calls for the ratio to improve to 73% by 4Q19 which corresponds to an ROAA of ~0.95%.

There is no change to our 2H19 fee income forecast of \$5.7M. We expect solid growth in wealth management aided by a recent hire in Augusta, GA and on the mortgage front we are projecting ~\$125M in annual production at a 3.25% GOS margin which equates to ~\$4M in revenue. Maintain 2H19 expense forecast at \$17.2M which includes a full quarter impact of the new Greenville, SC office. FCCO also expects to add 3 mortgage originators in 2H19. The E/R is forecast to rise to ~71% in '19 given investments in the franchise with improvement in '20 as operating leverage is achieved. Lastly, we have trimmed our LLP outlook to reflect strength in the portfolio.

Maintain Fair Value at \$21

FIG Group Research Rating: "Neutral"

Fair Value: \$21.00

Implied Gain/Loss versus Current Price: 6.7%

2019 Outlook			
2019 EPS	\$1.42	14.5x	\$20.56
Cash Dividends	\$0.44	1.0x	<u>\$0.44</u>
			\$21.00
Tangible Book 12/19	\$13.87	1.51x	\$21.00

Source: Janney Research (FIG Group) & Forward Estimates

Deposit Premium Analysis

	Current	Dec-19	Dec-20
Market-Cap	147.8	152.3	156.8
TCE in \$\$	101.1	102.6	110.0
Total Deposits	937.4	956.2	988.6
CORE Deposits	791.6	810.4	842.8
Premium - Total	5.0%	5.2%	4.7%
Premium - CORE	5.9%	6.1%	5.6%

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

Reiterate Neutral rating. In our view a greater level of profitability is required to justify a higher valuation. Our EPS forecast calls for ROAA to ~0.95% in 2019 reflecting FCCOs continued investment in the franchise including 1) two new branches in 2019 and 2) the hiring of additional revenue producers in mortgage and wealth. Profitability is expected to expand in 2020 and beyond as operating leverage from recent investments is realized.

Trim 2019 / 2020 EPS to \$1.42 and \$1.46, respectively. Our EPS reductions reflect 1Q19 results and our outlook for lower loan growth and a lower NIM partially offset by lower LLP.

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 19 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 7/17/19	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	\$151	\$1,115,968	26	0.51	9.2	6.3%	146	13.8x	12.9x	0.98	78%
BCBP	BCB Bncp Inc	\$208	\$2,718,400	12	1.41	6.9	1.6%	110	10.5x	10.0x	0.72	106%
BCML	BayCom Corp	\$269	\$1,482,470	33	0.43	12.6	6.4%	133	11.1x	9.9x	1.16	77%
CIVB	Civista Bcsbs Inc	\$332	\$2,277,702	37	0.42	10.0	7.6%	152	10.6x	10.1x	1.48	89%
CSTR	CapStar Finl Hlgs	\$263	\$2,035,811	19	1.29	10.3	4.7%	129	12.5x	11.6x	1.11	87%
EBMT	Eagle Bancorp	\$98	\$979,603	24	0.43	9.7	1.8%	111	9.8x	9.0x	1.24	98%
ENFC	Entegra Financial	\$206	\$1,669,151	16	0.95	8.7	7.5%	144	14.1x	13.6x	0.94	87%
ESXB	Cmty Bnk Trst Corp	\$176	\$1,398,497	14	1.11	10.2	6.3%	124	12.2x	11.8x	1.02	89%
EVBN	Evans Bancorp Inc	\$173	\$1,456,181	19	0.91	8.4	5.3%	143	10.7x	9.6x	1.11	93%
FBIZ	Frst Bus Fnl Svcs	\$200	\$2,005,642	19	1.59	8.7	2.5%	116	10.2x	10.2x	0.95	110%
FFNW	Frst Finl NW	\$142	\$1,287,862	5	1.61	11.6	(0.1%)	100	15.8x	13.4x	0.70	112%
HBMD	Howard Bncp Inc	\$280	\$2,250,559	25	0.86	10.3	4.8%	125	14.9x	14.2x	0.82	98%
ICBK	Cnty Bncp Inc	\$114	\$1,491,388	9	1.82	9.7	(7.5%)	79	8.5x	8.4x	0.90	101%
ISTR	Investar Hldg Corp	\$235	\$1,961,894	19	1.15	9.1	6.9%	137	12.2x	11.1x	0.97	98%
LCNB	LCNB Corp	\$239	\$1,632,387	25	0.69	10.2	7.7%	149	11.5x	10.3x	1.22	90%
MSL	MidSouth Bncp Inc	\$198	\$1,745,335	29	0.47	8.0	4.9%	146	53.9x	24.4x	NA	62%
NRIM	Northrim BanCorp	\$246	\$1,520,051	34	0.31	12.8	4.9%	128	12.8x	12.2x	1.27	80%
ORRF	Orrstown Finl Svcs	\$241	\$1,973,283	13	0.94	8.3	3.9%	124	11.3x	9.4x	0.87	78%
PMBC	Pacific Mercantile	\$182	\$1,398,640	31	1.24	NA	5.2%	135	18.1x	13.1x	0.76	91%
PROV	Provident Finl	\$161	\$1,119,395	10	0.39	10.8	6.0%	133	26.2x	15.0x	0.55	102%
RVSB	Riverview Bancorp	\$180	\$1,156,921	31	0.10	9.3	8.9%	171	10.6x	10.6x	1.48	95%
TCFC	Community Finl Cp	\$184	\$1,711,947	15	1.07	8.6	4.0%	127	11.6x	11.3x	0.92	95%
TRCB	Two River	\$125	\$1,140,521	19	1.04	9.0	3.6%	124	10.8x	9.9x	1.01	99%
Research by Janney (FIG Group), S&P Global MI			Median	19	0.95	9.7	4.9%	129	11.5x	10.8x	0.97	93.8%

Earnings Model

	Annual			2018 Quarterly				2019 Quarterly				2020 Quarterly			
	<u>2018A</u>	<u>2019E</u>	<u>2020E</u>	<u>1Q18A</u>	<u>2Q18A</u>	<u>3Q18A</u>	<u>4Q18A</u>	<u>1Q19A</u>	<u>2Q19A</u>	<u>3Q19E</u>	<u>4Q19E</u>	<u>1Q20E</u>	<u>2Q20E</u>	<u>3Q20E</u>	<u>4Q20E</u>
<u>Income Data: (\$ in Millions)</u>															
Net Interest Income	\$35.7	\$36.6	\$37.1	\$8.5	\$8.9	\$8.9	\$9.4	\$9.0	\$9.1	\$9.2	\$9.3	\$9.0	\$9.2	\$9.4	\$9.4
Loan Loss Provision	\$0.3	\$0.214	\$0.600	\$0.2	\$0.0	\$0.0	\$0.1	\$0.1	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2
Non-Interest Income	\$11.0	\$11.2	\$11.9	\$2.7	\$2.8	\$2.8	\$2.6	\$2.5	\$3.0	\$3.0	\$2.7	\$2.7	\$3.2	\$3.2	\$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	\$0.0	\$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
Non-Interest Expense	\$32.1	\$34.1	\$34.7	\$7.6	\$8.2	\$8.1	\$8.2	\$8.3	\$8.6	\$8.6	\$8.6	\$8.6	\$8.7	\$8.7	\$8.7
Pre-Tax Income	\$13.9	\$13.6	\$13.7	\$3.4	\$3.6	\$3.6	\$3.4	\$3.1	\$3.7	\$3.5	\$3.3	\$3.0	\$3.5	\$3.8	\$3.4
Taxes	\$2.7	\$2.8	\$2.9	\$0.7	\$0.6	\$0.7	\$0.7	\$0.6	\$0.8	\$0.7	\$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	\$10.9	\$2.7	\$3.0	\$2.8	\$2.7	\$2.5	\$2.9	\$2.8	\$2.6	\$2.4	\$2.8	\$3.0	\$2.7
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	\$10.9	\$2.7	\$3.0	\$2.8	\$2.7	\$2.5	\$2.9	\$2.8	\$2.6	\$2.4	\$2.8	\$3.0	\$2.7
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	\$1.46	\$0.35	\$0.39	\$0.37	\$0.35	\$0.32	\$0.37	\$0.38	\$0.35	\$0.32	\$0.37	\$0.40	\$0.36
<u>Per Share Data:</u>															
Reported Book Value	\$14.74	\$16.08	\$17.07	\$13.88	\$14.07	\$14.18	\$14.74	\$15.19	\$15.64	\$15.84	\$16.08	\$16.29	\$16.54	\$16.82	\$17.07
Tangible Book Value	\$12.55	\$13.87	\$14.88	\$11.63	\$11.84	\$11.98	\$12.55	\$13.03	\$13.46	\$13.63	\$13.87	\$14.08	\$14.34	\$14.63	\$14.88
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	\$1.80	\$1.92	\$0.48	\$0.46	\$0.47	\$0.49	\$0.42	\$0.46	\$0.48	\$0.45	\$0.43	\$0.50	\$0.53	\$0.49
CORE GAAP EPS	\$1.48	\$1.42	\$1.46	\$0.35	\$0.38	\$0.37	\$0.38	\$0.33	\$0.36	\$0.38	\$0.35	\$0.32	\$0.37	\$0.40	\$0.36
<u>KEY Ratios:</u>															
Net Interest Margin	3.64%	3.63%	3.56%	3.61%	3.67%	3.55%	3.74%	3.68%	3.64%	3.59%	3.59%	3.57%	3.56%	3.56%	3.56%
Return on Avg Assets	1.04%	0.97%	0.95%	1.03%	1.12%	1.04%	0.98%	0.92%	1.04%	1.01%	0.93%	0.86%	0.98%	1.03%	0.94%
Return on Avg Equity	10.48%	9.24%	8.88%	10.26%	11.32%	10.50%	9.84%	8.77%	9.83%	9.55%	8.82%	8.09%	9.19%	9.61%	8.64%
Return on Tang. Comm. Eq.	12.10%	10.84%	10.20%	12.68%	13.74%	12.80%	11.58%	10.33%	11.74%	11.46%	10.48%	9.62%	10.84%	11.27%	10.15%
Pre-Tax Pre-Provision ROA	1.36%	1.24%	1.26%	1.40%	1.33%	1.33%	1.40%	1.20%	1.27%	1.30%	1.20%	1.13%	1.30%	1.37%	1.26%
Efficiency Ratio	67.53%	70.26%	69.65%	65.45%	68.09%	67.50%	66.39%	70.18%	69.55%	69.38%	70.74%	71.95%	69.23%	68.04%	69.53%
Overhead Ratio	2.98%	3.08%	3.03%	2.88%	3.07%	2.99%	2.99%	3.06%	3.13%	3.09%	3.06%	3.04%	3.06%	3.03%	3.00%
TCE/TA	8.92%	9.18%	9.55%	8.39%	8.38%	8.51%	8.92%	9.24%	9.19%	9.09%	9.18%	9.27%	9.35%	9.43%	9.55%
<u>Period-End Balances: (\$ in Millions)</u>															
Earning Assets	\$996	\$1,029	\$1,061	\$974	\$994	\$995	\$996	\$997	\$1,013	\$1,021	\$1,029	\$1,034	\$1,045	\$1,055	\$1,061
Total Assets	\$1,092	\$1,134	\$1,169	\$1,071	\$1,092	\$1,091	\$1,092	\$1,097	\$1,116	\$1,125	\$1,134	\$1,140	\$1,151	\$1,163	\$1,169
Gross Loans	\$718	\$749	\$793	\$668.6	\$684.3	\$697	\$718	\$718	\$727	\$738	\$749	\$756	\$769	\$783	\$793
Total Deposits	\$926	\$956	\$989	\$920	\$933	\$922	\$926	\$920	\$937	\$947	\$956	\$956	\$969	\$979	\$989
Intangibles	\$17	\$16	\$16	\$17	\$17	\$17	\$17	\$17	\$16	\$16	\$16	\$16	\$16	\$16	\$16
Total Common Equity	\$112	\$119	\$126	\$105	\$107	\$108	\$112	\$116	\$117	\$117	\$119	\$120.47	\$122	\$124	\$126

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.

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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 06/30/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	179	55.59	40	22.35
NEUTRAL [N]	142	44.10	14	9.86
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.

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