First Community Corporation (FCCO) — Neutral

3Q23 Earnings Review: Little Change to Outlook

CONCLUSION

It was a relatively in-line quarter for FCCO after adjusting for a loss on the sale of securities and some elevated expenses (marketing and check fraud losses) that should see some relief in the 4Q. Mortgage and wealth fees provided nice offsets to NII pressure in the quarter (with revenues up 1%). The NIM compression has begun to abate, and we are modeling the margin will bottom in 1Q24. We are expecting loan growth to moderate from the 23% annualized pace in the 3Q but remain solid in the high-single-digits. Without as robust growth, we expect some capital accretion going forward (TCE ratio of 6.1% and risk-based of 13% at 9/30). Credit quality metrics were pristine with just 4 bps of NPAs and $0 in net charge-offs.

Reported EPS: $0.23 | Core: $0.36 | PSC: $0.38 | Consensus: $0.38

Click here for our First Look note.

- **Sells portion of securities book.** FCCO sold $40M in securities in the quarter with a 1.6-year expected earn-back, and the proceeds are being used to pay down borrowings and fund loan growth. We anticipate we could see more of these moves out of other banks. The market seemed to react favorably to the securities sale/earnings today, with FCCO shares closing up 1.3% vs. the NASDAQ Bank Index down 2.6%.

- **Modest EPS estimate changes.** Following the quarter's result, we lower our 2024 EPS estimate modestly (to $1.57), while we are introducing a 2025 EPS estimate of $1.78. We lower our price target to $19, still ~12x our 2024 EPS estimate. This represents a modest premium to peers, which we feel is appropriate and supported by its strong core deposit base in attractive SE markets.

RISKS TO ACHIEVEMENT OF PT & RECOMMENDATION

Deterioration in FCCO's credit quality, interest rate risk, a general decline in bank valuations, and a capital raise.

COMPANY DESCRIPTION

First Community is a $1.8B-in-asset bank based in the Columbia, SC MSA.

PRICE: US$17.80
TARGET: US$19.00
~12x our 2024 EPS estimate

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Changes	Previous	Current
Rating	—	Neutral
Price Tgt	US$20.00	US$19.00
FY24E EPS	US$1.62	US$1.57
FY25E EPS	—	US$1.78

Market Cap. (mil)	US$135.3
Book Value/Share	US$16.26
Tang. Book/Share	$14.25
Price/Book	109%
Price/Tang.Book	125%
52-Week High / Low	US$22.25 / US$16.30
Avg Daily Vol (000)	15
Div Yield	3.15%
Total Assets ($mil)	1,794
ROTCE	10.02%
Shares Out (mil)	7.6
Div (ann)	US$0.56
Institutional Ownership	55.0%
Insider Ownership	5.3%
Fiscal Year End	Dec

Price Performance - 1 Year

Source: Bloomberg

YEAR	EARNINGS PER SHARE (US$)					
	Mar	Jun	Sep	Dec	FY	FY P/E
2023E	0.45A	0.42A	0.36A	0.37	1.60	11.1x
2024E	0.35	0.36	0.42	0.44	1.57	11.3x
2025E	0.40	0.43	0.47	0.48	1.78	10.0x

PIPER | SANDLER

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	$1.92			$0.45		$0.42		$0.36		$0.37	$1.60			$0.35		$0.36		$0.42		$0.44	$1.57		$1.78	
Red = Forecast Inputs	2022A		△	1Q23A	△	2Q23A	△	3Q23A	△	4Q23E	2023E		△	1Q24E	△	2Q24E	△	3Q24E	△	4Q24E	2024E		2025E	
ASSUMPTIONS ($mil.)																								
Average Cash Equivalents	51	-44%	21.2%	30	41.3%	43	-30.8%	29	0.0%	29	33	-35%	0.0%	29	0.0%	29	0.0%	29	0.0%	29	29	-10%	29	0%
Average Securities	571	25%	-0.7%	565	-0.4%	563	-5.2%	533	-5.0%	506	542	-5%	-2.0%	496	-2.0%	486	-2.0%	477	-2.0%	467	482	-11%	444	-8%
Average PPP Loans	0	-99%	-8.3%	0	-9.1%	0	-8.9%	0	1.5%	0	0	-44%	1.5%	0	1.5%	0	1.0%	0	1.0%	0	0	-3%	0	5%
Average Non PPP Loans	920	10%	1.8%	986	3.1%	1,017	4.8%	1,066	2.0%	1,087	1,039	13%	2.0%	1,109	2.0%	1,131	2.0%	1,153	2.0%	1,176	1,142	10%	1,230	8%
Average Interest Earning Assets	1,541	9%	1.2%	1,582	2.6%	1,622	0.4%	1,628	-0.3%	1,623	1,614	5%	0.7%	1,635	0.7%	1,647	0.8%	1,660	0.8%	1,673	1,654	2%	1,704	3%
Average Assets	1,653	9%	1.1%	1,696	2.4%	1,737	0.4%	1,745	-0.3%	1,739	1,729	5%	0.7%	1,751	0.7%	1,765	0.8%	1,778	0.8%	1,793	1,772	2%	1,826	3%
Net Interest Margin	3.14%	-9 bps	-23 bps	3.19%	-17 bps	3.02%	-6 bps	2.96%	-3 bps	2.93%	3.02%	-12 bps	-1 bps	2.92%	+2 bps	2.94%	+10 bps	3.04%	+3 bps	3.07%	2.99%	-3 bps	3.09%	+10 bps
NIM (ex PPP)	3.14%	+7 bps	-23 bps	3.19%	-17 bps	3.02%	-6 bps	2.96%	-3 bps	2.93%	3.03%	-11 bps	-1 bps	2.92%	+2 bps	2.94%	+10 bps	3.04%	+3 bps	3.07%	2.99%	-4 bps	3.09%	+10 bps
Provision / Average Loans	-0.02%		+2 bps	0.03%	+4 bps	0.07%	+11 bps	0.18%	-3 bps	0.15%	0.11%		0 bps	0.15%	+2 bps	0.17%	0 bps	0.17%	-2 bps	0.15%	0.16%		0.15%	
NCO Ratio	-0.03%		0 bps	0.00%	+0 bps	0.00%	0 bps	0.00%	+10 bps	0.10%	0.03%		0 bps	0.10%	+5 bps	0.15%	0 bps	0.15%	-2 bps	0.13%	0.13%		0.10%	
Allowance/Loans	1.16%			1.15%		1.12%		1.08%		1.07%	1.07%			1.06%		1.05%		1.03%		1.02%	1.02%		0.99%	
INCOME STATEMENT ($000s)																								
FTE Net Interest Income	**48,455**	**6%**	**-7.6%**	**12,455**	**-1.9%**	**12,213**	**-0.4%**	**12,165**	**-1.6%**	**11,975**	**48,808**	**1%**	**-0.9%**	**11,863**	**1.4%**	**12,024**	**5.4%**	**12,675**	**1.8%**	**12,899**	**49,462**	**1%**	**52,636**	**6%**
Loan Loss Provision	(152)			70		186		474		411	1,141			413		478		493		444	1,828		1,846	
Deposit Service Charges	960	-2%	22.1%	232	-5.2%	220	9.1%	240	3.0%	247	939	-2%	1.0%	250	4.0%	260	3.0%	267	3.0%	275	1,052	12%	1,173	11%
Mortgage Banking Income	1,900	-56%	-46.6%	155	139.4%	371	36.9%	508	-10.0%	457	1,491	-22%	-15.0%	389	30.0%	505	5.0%	530	0.0%	530	1,955	31%	2,101	7%
Wealth Management	4,479	12%	3.3%	1,067	1.3%	1,081	9.8%	1,187	2.0%	1,211	4,546	1%	1.0%	1,223	1.0%	1,235	1.0%	1,247	1.0%	1,260	4,965	9%	5,167	4%
Other Income	4,342	0%	4.2%	1,121	12.2%	1,258	-6.4%	1,178	2.0%	1,202	4,759	10%	1.0%	1,214	-2.0%	1,189	3.0%	1,225	3.0%	1,262	4,890	3%	5,134	5%
Noninterest Income	**11,681**	**-14%**	**-0.5%**	**2,575**	**13.8%**	**2,930**	**6.2%**	**3,113**	**0.1%**	**3,117**	**11,735**	**0%**	**-1.3%**	**3,075**	**3.7%**	**3,189**	**2.5%**	**3,270**	**1.8%**	**3,328**	**12,862**	**10%**	**13,575**	**6%**
Operating Revenue	**60,136**	**1%**	**-6.5%**	**15,030**	**0.8%**	**15,143**	**0.9%**	**15,278**	**-1.2%**	**15,092**	**60,543**	**1%**	**-1.0%**	**14,938**	**1.8%**	**15,214**	**4.8%**	**15,946**	**1.8%**	**16,227**	**62,324**	**3%**	**66,211**	**6%**
Salaries & Employee Benefits	25,357	4%	-5.4%	6,331	2.8%	6,508	1.6%	6,613	0.0%	6,613	26,065	3%	1.0%	6,679	1.0%	6,746	1.0%	6,813	1.0%	6,882	27,120	4%	28,221	4%
Occupancy & Equipment	4,345	2%	8.4%	1,166	2.1%	1,190	0.2%	1,192	-2.0%	1,168	4,716	9%	-1.5%	1,151	2.5%	1,179	1.5%	1,197	1.0%	1,209	4,736	0%	4,902	4%
Marketing & Public Relations	1,259	7%	19.7%	346	6.9%	370	64.6%	609	-30.0%	426	1,751	39%	0.0%	426	0.0%	426	0.0%	426	0.0%	426	1,705	-3%	1,705	0%
FDIC Assessment	468	-24%	62.5%	182	21.4%	221	-4.5%	211	5.0%	222	836	79%	0.3%	222	0.3%	223	6.0%	236	0.3%	237	918	10%	982	7%
Other Real Estate Expenses	308	193%	-162%	(133)	77.4%	(30)	170.0%	21	0.0%	21	(121)	-139%	0.0%	21	0.0%	21	0.0%	21	0.0%	21	84	169%	84	0%
Amortization of Intangibles	158	-21%	-2.5%	39	2.6%	40	-2.5%	39	-0.5%	39	157	-1%	0.0%	39	-0.5%	39	-0.5%	38	-0.5%	38	154	-2%	152	-1%
Other Expenses	9,358	12%	10.2%	2,505	-2.0%	2,456	5.4%	2,588	-5.0%	2,459	10,008	7%	-1.0%	2,434	2.5%	2,495	2.0%	2,545	2.0%	2,596	10,069	1%	10,631	6%
Noninterest Expense	**41,253**	**5%**	**-2.4%**	**10,436**	**3.1%**	**10,755**	**4.8%**	**11,273**	**-2.9%**	**10,947**	**43,411**	**5%**	**0.2%**	**10,972**	**1.4%**	**11,129**	**1.3%**	**11,277**	**1.2%**	**11,409**	**44,787**	**3%**	**46,677**	**4%**
PTPP Operating Income	**18,883**	**-7%**	**-14.6%**	**4,594**	**-4.5%**	**4,388**	**-8.7%**	**4,005**	**3.5%**	**4,144**	**17,131**	**-9%**	**-4.3%**	**3,965**	**3.0%**	**4,085**	**14.3%**	**4,668**	**3.2%**	**4,818**	**17,537**	**2%**	**19,534**	**11%**
Pretax Operating Income	**19,035**	**-4%**	**-15.5%**	**4,524**	**-7.1%**	**4,202**	**-16.0%**	**3,531**	**5.7%**	**3,733**	**15,990**	**-16%**	**-4.9%**	**3,552**	**1.5%**	**3,607**	**15.8%**	**4,176**	**4.8%**	**4,375**	**15,709**	**-2%**	**17,688**	**13%**
Securities Gains	(45)			0		0		(1,249)		0	(1,249)			0		0		0		0	0		0	
Other Nonrecurring Items	(67)			0		121		0		0	121			0		0		0		0	0		0	
Pretax Income	**18,923**	**-6%**	**-14.3%**	**4,524**	**-4.4%**	**4,323**	**-47.2%**	**2,282**	**63.6%**	**3,733**	**14,862**	**-21%**	**-4.9%**	**3,552**	**1.5%**	**3,607**	**15.8%**	**4,176**	**4.8%**	**4,375**	**15,709**	**6%**	**17,688**	**13%**
Income Taxes + FTE Adjustment	4,310	-8%		1,061		996		526		877	3,460	-20%		835		848		981		1,028	3,692	7%	4,157	13%
FTE Tax Rate	22.8%			23.5%		23.0%		23.0%		23.5%	23.3%			23.5%		23.5%		23.5%		23.5%	23.5%		23.5%	
Avg. Diluted Shares	7,607	1%	0.3%	7,644	0.1%	7,655	0.0%	7,655	0	7,655	7,652	1%	0	7,655	0	7,655	0	7,655	0	7,655	7,655	0%	7,655	0%
Shares Outstanding	7,578	0%	0.1%	7,588	0.1%	7,594	0.1%	7,600	0	7,600	7,600	0%	0	7,600	0	7,600	0	7,600	0	7,600	7,600	0%	7,600	0%
Dividend	0.52			0.14		0.14		0.14		0.14	0.56			0.14		0.14		0.14		0.14	0.56		0.56	
Dividend Payout Ratio	27.1%			30.9%		32.2%		61.0%		37.5%	37.8%			39.4%		38.8%		33.6%		32.0%	35.7%		31.5%	
EPS - Diluted	**$1.92**	**-6%**	**-14.6%**	**$0.45**	**-4.1%**	**$0.43**	**-47.2%**	**$0.23**	**62.6%**	**$0.37**	**$1.48**	**-23%**	**-4.9%**	**$0.35**	**1.5%**	**$0.36**	**15.8%**	**$0.42**	**4.8%**	**$0.44**	**$1.57**	**6%**	**$1.78**	**13%**
Operating EPS	**$1.92**	**-5%**	**-15.9%**	**$0.45**	**-6.8%**	**$0.42**	**-15.1%**	**$0.36**	**4.1%**	**$0.37**	**$1.60**	**-17%**	**-4.9%**	**$0.35**	**1.5%**	**$0.36**	**15.8%**	**$0.42**	**4.8%**	**$0.44**	**$1.57**	**-2%**	**$1.78**	**13%**
PERFORMANCE ANALYSIS																								
Operating ROAA	0.88%			0.83%		0.75%		0.62%		0.65%	0.71%			0.62%		0.63%		0.71%		0.74%	0.68%		0.74%	
PTPP Operating ROAA	1.1%			1.1%		1.0%		0.9%		0.9%	1.0%			0.9%		0.9%		1.0%		1.1%	1.0%		1.1%	
Operating ROATCE	13.9%			13.5%		12.0%		10.0%		10.4%	11.5%			9.9%		9.9%		11.1%		11.4%	10.6%		11.0%	
Net Interest Margin	3.14%			3.19%		3.02%		2.96%		2.93%	3.02%			2.92%		2.94%		3.04%		3.07%	2.99%		3.09%	
Fee Income / Operating Revenue	19.4%			17.1%		19.3%		20.4%		20.7%	19.4%			20.6%		21.0%		20.5%		20.5%	20.6%		20.5%	
Core Efficiency Ratio	68.6%			69.4%		71.0%		73.8%		72.5%	71.7%			73.5%		73.2%		70.7%		70.3%	71.9%		70.5%	
Book Value / Share	15.62	-16%		16.29		16.35		16.26		16.40	16.40	5%		16.59		16.78		17.03		17.30	17.30	5%	18.40	6%
Tangible Book Value / Share	13.59	-18%		14.26		14.33		14.25		14.49	14.49	7%		14.72		14.94		15.23		15.54	15.54	7%	16.78	8%
TCE / TA	6.21%			6.29%		6.31%		6.09%		6.21%	6.21%			6.26%		6.31%		6.39%		6.46%	6.46%		6.76%	

Source: Company reports and PSC. Current disclosure information for this company can be found at: http://www.pipersandler.com/researchdisclosures

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services
Piper Sandler

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [OW]	**578**	**59.10**	**138**	**23.88**
HOLD [N]	**359**	**36.71**	**42**	**11.70**
SELL [UW]	**41**	**4.19**	**1**	**2.44**

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Neutral (N): Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.

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