

Estimate Change

Banks/Thriffs

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First Community Corporation (FCCO-\$6.65)

Hold (2)

Company Statistics

12-month Price Target:	NA
52-wk Range:	\$4.69-\$7.99
Market Capitalization (M):	\$22
Shares Outstanding (M) fd:	3.3
Avg. Daily Vol. (000):	1.1
Dividend:	\$0.16
Yield:	2.40%
Price/Book Value:	60%
Price/Tangible Book Value:	61%
Equity/Assets:	8.1%
NPAs +90/Assets:	2.83%
NCO Ratio:	0.39%
Reserves/Loans:	1.45%

Financials

FYE Dec	2009A	2010A	2011A	2012E	2013E	
P/E Ratio:	10.0x	13.9x	8.6x	8.3x	7.7x	
ROE:	4.6%	4.4%	7.7%	6.7%	6.7%	
ROA:	0.4%	0.3%	0.5%	0.5%	0.6%	
EPS:						
	Q1	\$0.18	\$0.16	\$0.10	\$0.21	\$0.20
	Q2	\$0.18	\$0.12	\$0.18	\$0.21	\$0.21
	Q3	\$0.11	\$0.12	\$0.24	\$0.20	\$0.22
	Q4	\$0.19	\$0.07	\$0.25	\$0.18	\$0.23
Total		\$0.66	\$0.48	\$0.77	\$0.80	\$0.86
Prior EPS:						
	Q1	-	-	-	\$0.21	-
	Q2	-	-	-	\$0.22	-
	Q3	-	-	-	\$0.21	-
	Q4	-	-	-	\$0.17	-
Total		-	-	-	\$0.81	-

Company Description

First Community Corporation is a bank holding company headquartered in Lexington, SC, which provides traditional retail, commercial, and mortgage banking services. First Community Bank operates a network of 11 branches in the Midlands area of South Carolina. The company recently expanded its insurance and investment platform by forming First Community Financial Consultants in 2008.

FCCO: ANOTHER UPSIDE Q, IMPROVEMENTS CONTINUE, INITIATING 2013 EST

Key Points

- **Reports Q4 operating EPS of \$0.25** vs. our estimate of \$0.23. As we noted in Q3 the acquisition of Palmetto South Mortgage and the low rate environment continued to drive mortgage revenues (+118% LQ) and when combined with a lower than anticipated loan loss provision accounted for the upside Q. Credit metrics improved for the most part as NCOs and total NPAs declined sequentially and capital levels continued to rise.
- **Capital levels and TCE improving.** Regulatory capital is full, but the below peer TCE and \$11M of TARP remain an overhang on the shares, in our view. We are encouraged with the continued improvement in profitability and steady growth in TCE to 6.1% from 5.0% at YE10, however, peer TCE remains materially higher at 7.8% with more than half either not participating or already having redeemed TARP.
- **Issuance of subordinated notes and replacement of MOU.** In late Q4 FCCO announced that it issued \$2.5M of subordinated notes to institutional investors, management and directors. The proceeds from the notes will be used for general corporate purposes including dividend payments. Also, and we believe importantly, in early January, FCCO announced that its Memorandum of Understanding (MOU) with the Federal Reserve had been terminated and replaced with a new MOU which eliminates the requirement that FCCO receive prior approval from the Federal Reserve before declaring or paying any dividends. A positive sign, in our opinion.
- **Credit metrics remain stable and better than peers.** Total NPAs declined to 2.8% from 2.9% of assets and in line with year ago metrics. Management noted that a new non-accrual loan of \$2M kept NPAs at current levels. NCOs were 0.39% vs. 0.45% in Q3 and below our estimate while reserve levels were flat LQ. Coverage of NPLs (excluding TDRs) declined to 87% due to the single \$2M nonaccrual loan added in the quarter. Criticized loans or "potential problem loans," decreased to 8.0% of loans from 8.9% at the end of Q3, but still compare favorably to 9.3% at YE10. Overall, credit metrics remain manageable and we expect credit costs to remain near current levels into 2012 and moving lower heading to 2013.
- **Adjusting estimates, initiating 2013 estimate, maintain Hold.** We are tweaking our 2012 EPS estimate to \$0.80 and initiating a 2013 estimate of \$0.86. Although the discount to TBV appears excessive in our view (61% of TBV), we remain on the sidelines until more clarity is achieved regarding TARP repayment. The revised regulatory order with the Federal Reserve should give comfort to investors regarding dividend payments. We continue to be encouraged with the improving profitability picture and management's progress in reducing the risk profile and working through a difficult operating environment.

Additional Discussion

Improving deposit mix while loan growth is limited. Given weak loan demand, FCCO continues to improve its deposit mix by growing “core” deposits while reducing CD balances. Core deposits have now increased 10% since YE10 while CD balances have declined 9%. The improvement in mix has benefitted the NIM lowering the cost of funds to 1.17% from 1.55% at YE10.

First Community Corporation (FCCO-OTC)

(Smil, except per share data)

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2010A	2011A	2012E	2013E		4Q10	1Q11	2Q11	3Q11	4Q11	1Q12E	2Q12E	3Q12E	4Q12E
Income Statement													
\$18.21	\$18.33	\$18.06	\$18.05	Net Interest Income	\$4.48	\$4.45	\$4.62	\$4.63	\$4.62	\$4.56	\$4.51	\$4.50	\$4.49
1%	1%	-1%	0%	% change vs. prior year	-6%	-6%	3%	3%	3%	2%	-3%	-3%	-3%
1.88	1.42	1.44	1.18	Loan Loss Provision	0.51	0.36	0.39	0.36	0.31	0.36	0.36	0.36	0.36
-39%	-24%	1%	-18%	% change vs. prior year	118%	-30%	8%	-8%	-14%	16%	-1%	0%	0%
4.32	6.04	7.09	7.48	Total Noninterest Income	1.17	1.33	1.26	1.70	1.75	1.74	1.79	1.80	1.76
-17%	40%	17%	6%	% change vs. prior year	-4%	38%	21%	48%	50%	31%	43%	6%	0%
17.68	18.34	18.89	19.22	Total Noninterest Expense	4.65	4.72	4.43	4.56	4.64	4.67	4.70	4.74	4.78
9%	4%	3%	2%	% change vs. prior year	17%	13%	5%	-2%	0%	-1%	6%	4%	3%
(0.48)	0.19	-	-	Nonrecurring Gains (Expense)	-	0	(0)	(0)	0	-	-	-	-
2.50	4.80	4.82	5.13	Net Income Before Taxes	0.49	0.80	1.03	1.40	1.57	1.27	1.24	1.20	1.11
25%	30%	31%	31%	Effective Tax Rate	19%	29%	29%	31%	31%	31%	31%	31%	31%
\$0.36	\$0.81	\$0.80	\$0.86	Diluted EPS, Stated	\$0.07	\$0.12	\$0.17	\$0.24	\$0.27	\$0.21	\$0.21	\$0.20	\$0.18
\$0.48	\$0.77	\$0.80	\$0.86	Dil. EPS, Operating*	\$0.07	\$0.10	\$0.18	\$0.24	\$0.25	\$0.21	\$0.21	\$0.20	\$0.18
-28%	61%	3%	8%	% change vs. prior year	-63%	-36%	48%	94%	248%	105%	15%	-18%	-27%
\$0.16	\$0.16	\$0.16	\$0.16	Common Dividend/Share	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
44%	20%	20%	19%	Payout Ratio	57%	32%	23%	17%	15%	19%	19%	20%	22%
3.25	3.29	3.31	3.31	Avg. Diluted Shares	3.27	3.27	3.28	3.30	3.31	3.31	3.31	3.31	3.31
Balance Sheet													
\$214.9	\$212.6	\$209.5	\$206.5	Cash & Securities	\$214.9	\$218.2	\$224.2	\$223.4	\$212.6	\$211.8	\$211.0	\$210.3	\$209.5
330.0	324.3	330.8	337.5	Loans	330.0	334.2	325.7	324.2	324.3	325.9	327.6	329.2	330.8
-4%	-2%	2%	2%	% change vs. prior year	-4%	-2%	-4%	-2%	-2%	-2%	1%	2%	2%
4.9	4.7	4.7	4.8	Loan Loss Reserves	4.9	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
0.9	0.7	0.0	0.0	Total Intangibles	0.9	0.7	0.6	0.8	0.7	0.7	0.6	0.0	0.0
51.3	53.6	70.1	71.2	Other Assets	51.3	51.0	50.5	54.9	53.6	70.7	71.5	71.1	70.1
599.0	593.9	605.8	610.5	Total Assets	599.0	607.3	605.2	606.9	593.9	604.4	606.1	605.9	605.8
-1%	-1%	2%	1%	% change vs. prior year	-1%	-2%	0%	-1%	-1%	0%	0%	0%	2%
455.3	464.6	488.3	513.1	Deposits	455.3	466.0	470.9	473.2	464.6	470.4	476.3	482.2	488.3
1%	2%	1%	1%	% change vs. prior year	1%	0%	2%	3%	2%	1%	1%	2%	5%
96.2	75.4	80.0	84.0	Other Borrowings	96.2	94.6	85.2	81.2	75.4	80.0	80.0	80.0	80.0
11.0	11.2	11.3	11.4	Preferred Equity	11.0	11.1	11.2	11.2	11.2	11.2	11.3	11.3	11.3
30.8	36.7	39.4	42.4	Common Equity	30.8	31.5	32.7	35.5	36.7	37.4	38.1	38.8	39.4
41.8	47.9	50.8	53.8	Total Equity	41.8	42.5	43.9	46.7	47.9	48.7	49.4	50.1	50.8
72%	70%	68%	66%	Loans/Deposits	72%	72%	69%	69%	70%	69%	69%	68%	68%
337.2	329.6	327.6	331.7	Average Loans	331.2	333.7	330.9	325.0	328.6	325.1	326.7	328.4	330.0
555.8	550.4	548.4	550.6	Avg. Earning Assets (EA)	557.4	548.0	550.3	551.9	551.5	547.2	548.0	548.9	549.7
-4%	-1%	0%	0%	% change vs. prior year	-4%	-1%	-1%	-1%	-1%	0%	0%	-1%	0%
42.9	44.3	49.4	51.2	Avg. Equity	44.0	41.8	43.3	45.0	47.2	48.3	49.0	49.8	50.4
7.0%	8.1%	8.4%	8.8%	Equity/Assets	7.0%	7.0%	7.3%	7.7%	8.1%	8.1%	8.2%	8.3%	8.4%
5.0%	6.1%	6.5%	7.0%	Tangible Equity/Tang. Assets	5.0%	5.1%	5.3%	5.7%	6.1%	6.1%	6.2%	6.4%	6.5%
\$9.14	\$10.89	\$11.94	\$12.85	Tangible Book Value/Share	\$9.14	\$9.39	\$9.85	\$10.53	\$10.89	\$11.12	\$11.35	\$11.75	\$11.94
Profitability													
0.28%	0.50%	0.55%	0.58%	Return on Assets (ROA)	0.16%	0.27%	0.50%	0.64%	0.59%	0.58%	0.56%	0.54%	0.50%
4.35%	7.71%	6.69%	6.72%	Return on Equity (ROE)	2.76%	5.31%	6.99%	8.60%	9.94%	7.19%	6.93%	6.62%	6.05%
3.28%	3.34%	3.29%	3.27%	Net Interest Margin	3.20%	3.30%	3.37%	3.37%	3.32%	3.30%	3.29%	3.28%	3.27%
5%	2%	-2%	0%	% change vs. prior year	-2%	-5%	4%	5%	4%	0%	-2%	-3%	-2%
72%	70%	74%	74%	Efficiency Ratio	74%	73%	70%	67%	69%	73%	74%	74%	76%
19%	25%	28%	29%	Nonint. Income/Total Rev.	21%	23%	21%	27%	28%	28%	28%	29%	28%
24%	33%	38%	39%	Nonint. Income/Nonint. Exp.	25%	28%	28%	37%	38%	37%	38%	38%	37%
Credit Quality													
2.82%	2.83%	0.00%	0.00%	NPA's + 90/Assets	2.82%	2.67%	2.53%	2.93%					
1.49%	1.45%	1.41%	1.41%	Reserves/Loans	1.49%	1.39%	1.45%	1.45%	1.45%	1.44%	1.43%	1.42%	1.41%
83%	86.97%			Reserves/NPLs	83%	93%	142%	138%					
0.54%	0.49%	0.45%	0.44%	Net Charge-off Ratio	0.54%	0.74%	0.40%	0.45%	0.39%	0.45%	0.45%	0.45%	0.45%
104%	93%	98%	100%	LLP/NCO's	116%	58%	119%	98%	97%	98%	97%	97%	97%
Market Information													
\$5.78	\$6.19			End of Period (EOP) Price	\$5.78	\$6.73	\$6.94	\$5.83	\$6.19				
15.6	7.6			EOP Price/LTM EPS	15.6	18.5	15.8	9.6	7.6				
63%	57%			EOP Price/EOP Tg. Book Value	63%	72%	70%	55%	57%				
2.8%	2.6%			EOP Current Div. Yield	2.8%	2.4%	2.3%	2.7%	2.6%				

* Operating EPS excludes gains/losses in investment securities and other nonrecurring items.

IMPORTANT DISCLOSURES

Price Chart

FCCO

1) 10/07/09	2) 04/13/10
Buy (1) \$9	Hold (2) NA



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All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	55.2%	Buy (1)	10.6%
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Underweight/Sell (3)	1.2%	Underweight/Sell (3)	0.0%
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Suspended (SP)	0.0%	Suspended (SP)	0.0%

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The definition of each rating is as follows:

- Buy (1): estimated total return potential greater than or equal to 10%
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NR: Not Rated **NA:** Not Applicable **NM:** Not Meaningful **SP:** Suspended

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COMPANY	DISCLOSURE
First Community Corporation (FCCO)	1, 6

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