

## ASM Pacific Tech (522 HK)

## Overweight

Target price (HKD)	93.00
Share price (HKD)	78.30
Forecast dividend yield (%)	1.6
Potential return (%)	20.4

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Dec	2013 a	2014 e	2015 e
HSBC EPS	1.40	3.92	5.75
HSBC PE	56.1	20.0	13.6
Performance	1M	3M	12M
Absolute (%)	4.1	6.4	12.6
Relative <sup>a</sup> (%)	6.9	4.7	4.9

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## Disclaimer &amp;

## Disclosures

This report must be read  
with the disclosures and  
the analyst certifications in  
the Disclosure appendix,  
and with the Disclaimer,  
which forms part of it

## OW: Post NDR takeaways

- **Bookings recovery and seasonal trends suggest 2Q15 rebound, while visibility unclear in 2H15**
- **Increasing addressable market story intact with more margin expansion. However, 2015 growth likely moderating given tough comparables from large SMT/TCB shipments last year**
- **Reiterate OW and TP HKD93. Increased customer, product, end market diversity to drive both growth and stability**

**On the road with ASMPT.** We hosted ASMPT management for a post-results NDR this week in Hong Kong and Singapore. Most investor questions focused on future growth prospects after a stellar 2014 when revenue increased 31% y-o-y and operating profit nearly tripled. While 1Q15 revenue is set to decline seasonally, bookings are recovering and we expect a solid rebound in 2Q15 (as a reminder, backend equipment 2Q revenue increased 46-58% q-o-q in 2012-14). Looking to full-year growth, management was more confident on 1H15, but hesitant to comment on 2H15 given limited visibility and tough 2014 comparables from the large surface mount technology (SMT) order last year, strong initial thermal compression bonder (TCB) shipments, and the integration of the DEK acquisition that started in 3Q14. Consequently, we believe the growth rate will moderate in 2015. But given the increased customer, product and end market diversity, we believe management is still targeting low-teens revenue growth this year driven by: 1) LED assembly for both general lighting and TVs; 2) a first full-year contribution from the DEK acquisition; 3) continued growth in SMT for automotive and industrial applications; 4) market share gains in higher valued SMT tools by leveraging DEK's dominant market share in screen printers; 5) an expanding addressable market in SMT by targeting mid-end market share gains in broader IT segment, launching an advanced integrated DEK/SMT tool, and regional share gains in China, Korea, and South Asia; 6) flip-chip bonder growth for low pin count applications like RF; 7) tangential growth opportunities in interconnect "insensitive" tools such as CMOS image sensors and test handlers, as well laser grooving and dicing; and 8) secular growth driven by China government support of semiconductor industry. Management was also positive on continued margin expansion in all three segments, which will likely translate into another 200-300bps of gross and op margin expansion this year. Beyond tough 2014 comparables and limited visibility into 2H15, other potential headwinds this year include continued JPY depreciation and rising labour costs (impacting both ASMPT and its customers).

**Reiterate OW and HKD93 target based on unchanged 16x PE.** Increasing customer, product and end-market diversity underappreciated. Our 2015 EPS estimates unchanged.

Index <sup>a</sup>	HANG SENG INDEX
Index level	23,897
RIC	0522.HK
Bloomberg	522 HK

Source: HSBC

Enterprise value (HKDm)	31239
Free float (%)	60
Market cap (USDm)	4,061
Market cap (HKDm)	31,517

Source: HSBC

Potential positives and headwinds facing ASMPT, in our view

Potential Positives	Potential Headwinds
<ul style="list-style-type: none"> <li>- Expanding addressable market and diversification</li> <li>- Revenue potentially increasing 10-15% in 2015 (after +30% in 2014)</li> <li>- Some customers shift back to wire bonding due to lower costs</li> <li>- Full-year effect of DEK (SMT printer)</li> <li>- LED lighting/TV growing (good for die bonder ratio)</li> <li>- Automotive and industrial a secular positive trend.</li> <li>- Targeting traditional I.T. market for SMT, a large market where market share gains are possible</li> <li>- New SMT tool to address mid-end market. Also launching integrated screen printer/SMT tool</li> <li>- Growth from "insensitive" interconnect products such as test handlers, CMOS image sensors and laser grooving/dicing</li> <li>- China government support of semiconductor industry</li> <li>- Growing trend of small I/O low pin count flip chip</li> <li>- Margin expansion story continues for all product areas</li> <li>- Targeting SMT share gains in China, SE Asia, and Korea</li> </ul>	<ul style="list-style-type: none"> <li>- Strong 2014 results in tough compare for 2015</li> <li>- Lacking visibility for 2H15 (also tough compare versus 2H14)</li> <li>- Tough compare for SMT due to ramp for Apple via Hon Hai</li> <li>- Thermal compression bonder ramp slower this year</li> <li>- Rising labour costs an ongoing concern</li> <li>- JPY depreciation</li> </ul>

Source: HSBC

## Key takeaways from NDR

- ▶ **2014 a stellar year.** ASMPT set record bookings and revenue levels in 2014 (+38% and +31% y-o-y respectively). We believe the strength came from an aggressive ramp from backend companies, TCB bonders, SMT for mobile applications and a 2H14 contribution from DEK (the SMT printer business). The company also registered a significant y-o-y improvement in its profitability as group gross margins grew by 616bps y-o-y while the net profit margin also rose by around the same level.
- ▶ **Near-term bookings suggest normal seasonality; 2Q revenue to rebound.** As a reminder, ASMPT guided 1Q15 group bookings to show a moderate double digit percentage q-o-q improvement with revenue declining q-o-q (on seasonality), and a low to moderate double-digit percentage y-o-y improvement. Judging from the ordering patterns in the past few weeks, management sees normal seasonality in 1Q15 and expects a recovery in 2Q15. We are currently modelling ASMPT's 1Q15e revenue to decline 13.6% q-o-q (or up 19.4% y-o-y) and rebound 33.2% q-o-q in 2Q15e (or up 15.4% y-o-y).
- ▶ **2015e revenue to continue growing, though at a slower pace than 2014.** ASMPT's 2014 revenue increased 31.3% y-o-y (somewhat front-end-loaded, as customers aggressively expanded in the first three quarters of the year). Management commented that while 2014 revenue growth was impressive, they do not expect the magnitude this year to be as big. We estimate that "organic" revenue growth (excluding a large SMT order related to Apple and DEK integration) for ASMPT in 2014 was closer to 20% y-o-y (versus the reported 31.3%). For 2015e, we expect the company to generate revenue of HKD16.3bn, implying an increase of 14.3% y-o-y (note this includes a full year of DEK which represents an incremental HKD500m or so or approximately 3-4% additional revenue this year).
- ▶ **Gross margin target for backend and SMT businesses on track.** While we are impressed by the company's execution as gross margins for the backend business (combined equipment and leadframe) and SMT businesses in 2014 improved by approx. 570bps and 710bps y-o-y to 36% and 34.8% respectively, management continues to reiterate their target of 40% gross margins for the two

segments. Given the company's track record, we are modelling 260-310bps y-o-y in gross margin improvement for backend (38.6%) and SMT (37.9% - impressive despite JPY depreciation) in 2015e.

- ▶ **Backend equipment – LED momentum to continue in 2015, seeking visibility on IC/discrete.** ASMPT commented that LED revenue within the backend business grew in 2014 but was eclipsed by strength in traditional IC/discretes. As a reminder, 60% of ASMPT's backend equipment revenue comes from traditional wire bonder and die bonders (note: we believe die bonders are the larger contributor of the two, especially when LED customers are strong). Looking at 2015, management expects LED momentum to continue driven by general lighting, higher resolution 4K2K TVs, and continued size migration in LED display panels (note: ASMPT has more than 80% market share in LED die/wire bonders). According to the company, the total wire bonder market grew at a solid double-digit percentage y-o-y in 2014 due to increased cost pressures from smartphones (resulting in some shift back to cheaper wire bonding from flip chip), as well as second-tier players trying to take advantage of ASE and Siliconware's focus on advanced packaging. Given last year's strength, management suggested that there may be a risk of an IC/discrete assembly equipment digestion phase this year.
- ▶ **SMT market remains competitive, but still growing margins and total addressable market.** Due to the depreciating JPY, ASMPT acknowledged that they are facing pricing competition (as Japanese peers quote in JPY versus ASMPT's USD). However, management believes it has better technology/specification versus its Japanese peers, and combined with cost controls, have allowed the company to gain market share (despite an average 20% higher ASP), while also sustaining margins. In fact, management suggested SMT gross margins would have already hit their 40% goal had the JPY not pressured them so much. The company is also optimistic that the total addressable market for their SMT business is increasing. Specifically, management believes it can gain share in the traditionally broad information technology (IT) segment (where ASMPT's market share is relatively low), as well as continued gains in the automotive and industrials segments (despite a number one market position). Also, the acquisition of DEK (screen printer business) allows ASMPT to cross-sell their much higher value placement products (DEK is estimated to have a more than 60% market share with numerous customers where SMT unit has yet to penetrate). The company is also looking to launch mid-end SMT tools soon and an integrated SMT/screen printer tool in 2H15, which will both help the company gain market share. By region, management is targeting to gain share in China, Korea and South Asia.
- ▶ **Interconnect “insensitive” products another source of growth.** Management highlighted interconnect “insensitive” products as a growing trend which will provide another avenue of growth for ASMPT. For example, the company is already the number one supplier globally for CMOS image sensor (CIS) equipment and is benefiting from the secular trend of the growing adoption of multiples (most notably in smartphones and automotives). Other areas include test handler. ASM Laser Separation International (ALSI), a laser dicing and grooving business ASMPT acquired in 3Q14, also provides a source of growth as ASMPT can leverage its own deep backend knowledge to develop innovative and lower cost ALSI solutions for its customers.

ASMPT: Changes to quarterly estimates

(HKDm)	1Q15e			2Q15e		
	Prior	New	Consensus	Prior	New	Consensus
Revenue	2,977	2,977	3,066	3,977	3,967	3,973
Q-o-q growth	-13.6%	-13.6%	-11.0%	33.6%	33.2%	29.6%
Gross margin	35.5%	35.9%	35.3%	37.9%	39.2%	37.8%
Op Profit	317	325	385	729	715	679
Op margin	10.6%	10.9%	12.6%	18.3%	18.0%	17.1%
Net profit	235	242	291	588	577	525
EPS (HKD)	0.58	0.60	0.72	1.46	1.43	1.30
Bookings	3,318	3,318				
Q-o-q growth	25.0%	25.0%				
Book-to-bill	1.11	1.11				
Backlog	2,868	2,868				
Q-o-q growth	13.5%	13.5%				

Source: HSBC estimates, Bloomberg consensus

ASMPT: Changes to annual estimates

(HKDm)	2015e			2016e		
	Prior	New	Consensus	Prior	New	Consensus
Revenue	16,301	16,265	15,419	16,784	16,744	16,555
Y-o-y growth	14.6%	14.3%	8.4%	3.0%	2.9%	7.4%
Gross margin	37.2%	38.3%	36.5%	36.9%	38.7%	36.9%
Op Profit	2,916	2,914	2,518	2,955	3,083	2,837
Op margin	17.9%	17.9%	16.3%	17.6%	18.4%	17.1%
Net profit	2,323	2,320.7	2,008.0	2,384	2,489	2,236
EPS (HKD)	5.75	5.75	4.99	5.54	5.79	5.52

Source: HSBC estimates, Bloomberg consensus

ASMPT: Profit and loss statement

(HKDm)	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E	2013	2014	2015E	2016E
<b>Revenue</b>	<b>2,493</b>	<b>3,438</b>	<b>4,852</b>	<b>3,446</b>	<b>2,977</b>	<b>3,967</b>	<b>5,014</b>	<b>4,308</b>	<b>10,841</b>	<b>14,229</b>	<b>16,265</b>	<b>16,744</b>
q-o-q	-9.8%	37.9%	41.2%	-29.0%	-13.6%	33.2%	26.4%	-14.1%	3.6%	31.3%	14.3%	2.9%
y-o-y	17.3%	20.6%	56.4%	24.7%	19.4%	15.4%	3.3%	25.0%	3.6%	31.3%	14.3%	2.9%
<b>COGS</b>	<b>1,686</b>	<b>2,241</b>	<b>3,115</b>	<b>2,138</b>	<b>1,907</b>	<b>2,412</b>	<b>3,036</b>	<b>2,685</b>	<b>7,662</b>	<b>9,180</b>	<b>10,040</b>	<b>10,271</b>
% of revs	67.6%	65.2%	64.2%	62.0%	64.1%	60.8%	60.5%	62.3%	70.7%	64.5%	61.7%	61.3%
<b>Gross profit</b>	<b>808</b>	<b>1,196</b>	<b>1,737</b>	<b>1,308</b>	<b>1,070</b>	<b>1,555</b>	<b>1,978</b>	<b>1,623</b>	<b>3,179</b>	<b>5,050</b>	<b>6,226</b>	<b>6,473</b>
<b>Gross margin</b>	<b>32.4%</b>	<b>34.8%</b>	<b>35.8%</b>	<b>38.0%</b>	<b>35.9%</b>	<b>39.2%</b>	<b>39.5%</b>	<b>37.7%</b>	<b>29.3%</b>	<b>35.5%</b>	<b>38.3%</b>	<b>38.7%</b>
<b>Op profit</b>	<b>211</b>	<b>513</b>	<b>905</b>	<b>490</b>	<b>325</b>	<b>715</b>	<b>1,096</b>	<b>778</b>	<b>772</b>	<b>2,119</b>	<b>2,914</b>	<b>3,083</b>
<b>Op margin</b>	<b>8.5%</b>	<b>14.9%</b>	<b>18.6%</b>	<b>14.2%</b>	<b>10.9%</b>	<b>18.0%</b>	<b>21.9%</b>	<b>18.1%</b>	<b>7.1%</b>	<b>14.9%</b>	<b>17.9%</b>	<b>18.4%</b>
<b>Tax (credit)</b>	<b>41</b>	<b>91</b>	<b>202</b>	<b>93</b>	<b>53</b>	<b>127</b>	<b>192</b>	<b>138</b>	<b>114</b>	<b>429</b>	<b>509</b>	<b>546</b>
<b>Tax rate</b>	<b>20.9%</b>	<b>17.9%</b>	<b>20.6%</b>	<b>27.7%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>17.0%</b>	<b>21.1%</b>	<b>18.0%</b>	<b>18.0%</b>
<b>Net profit</b>	<b>157</b>	<b>417</b>	<b>782</b>	<b>244</b>	<b>242</b>	<b>577</b>	<b>874</b>	<b>628</b>	<b>559</b>	<b>1,600</b>	<b>2,321</b>	<b>2,489</b>
<b>EPS (HKD)</b>	<b>0.39</b>	<b>1.04</b>	<b>1.92</b>	<b>0.60</b>	<b>0.60</b>	<b>1.43</b>	<b>2.16</b>	<b>1.55</b>	<b>1.40</b>	<b>3.92</b>	<b>5.75</b>	<b>5.79</b>

Source: Company data, HSBC estimates

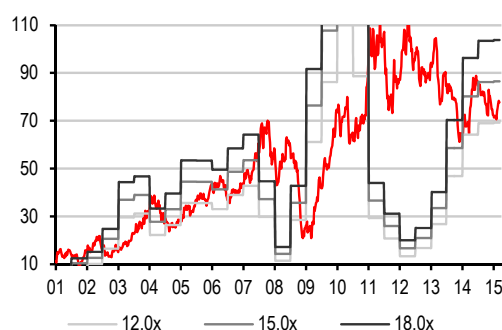
#### ASMPT: Revenue by segment

(HKDm)	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E	2013	2014	2015E
Assembly Equipment	\$1,269	\$1,851	\$2,168	\$1,516	\$1,364	\$1,872	\$2,339	\$1,872	\$5,200	\$6,804	\$7,447
Leadframe	\$443	\$506	\$503	\$450	\$414	\$489	\$586	\$557	\$1,724	\$1,902	\$2,047
SMT	\$782	\$1,080	\$1,872	\$1,245	\$1,008	\$1,351	\$1,756	\$1,581	\$3,917	\$4,979	\$5,697
DEK			\$310	\$235	\$190	\$255	\$332	\$298		\$545	\$1,075
<b>Total</b>	<b>\$2,493</b>	<b>\$3,438</b>	<b>\$4,852</b>	<b>\$3,446</b>	<b>\$2,977</b>	<b>\$3,967</b>	<b>\$5,014</b>	<b>\$4,308</b>	<b>\$10,841</b>	<b>\$14,229</b>	<b>\$16,265</b>

Source: Company data, HSBC estimates

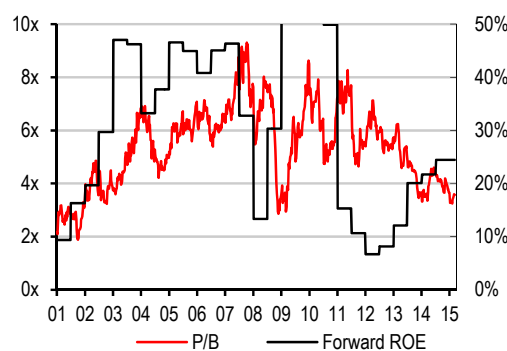
## Valuation and risks

ASMPT: PE band chart



Source: Company data, HSBC estimates

ASMPT: PB vs forward ROE



Source: Company data, HSBC estimates

Our target PE multiple of 16x is unchanged and remains based on our 2015e EPS of HKD5.75 to recognise the full-year impact from a right-sized cost structure, LED recovery, new product and customer ramps, and integration of the recently acquired DEK. Hence our target price remains at HKD93.

We believe 16x is the level that best represents where the stock should be trading at times of revenue, margin and ROE expansion.

Under our research model, the Neutral band for non-volatile stocks equals the local market hurdle rate set by our Global Equity Strategy team (8.5% for Hong Kong-traded stocks), plus or minus 5ppt, or a potential return of 3.5-13.5% required for ASMPT stock to merit a Neutral rating. As our target price implies a potential return of 20.4% (including the forecast dividend yield of 1.6%), which is above the Neutral band, we reiterate our Overweight rating on the shares. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

**Downside risks** to our rating and estimates include overcapacity or a cyclical slowdown, a slowdown in the LED sector, potential integration issues, an inability to implement cost-cutting measures successfully or excess supply, and unexpectedly weak demand resulting in an even greater-than-expected cyclical decline or a prolonged recovery.

## Financials & valuation

### Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
<b>Profit &amp; loss summary (HKDm)</b>				
Revenue	10,841	14,229	16,265	16,744
EBITDA	1,195	2,519	3,314	3,483
Depreciation & amortisation	-424	-400	-400	-400
Operating profit/EBIT	772	2,119	2,914	3,083
Net interest	-99	-91	-84	-47
HSBC PBT	673	2,028	2,830	3,035
Taxation	-114	-429	-509	-546
HSBC net profit	559	1,600	2,321	2,489

### Cash flow summary (HKDm)

Cash flow from operations	192	1,472	3,093	3,514
Capex	-350	-558	-600	-697
Cash flow from investment	-350	-558	-600	-697
Dividends	-260	-521	-973	-1,371
Change in net debt	-254	768	-1,652	-1,496
FCF equity	272	1,442	2,121	2,192

### Balance sheet summary (HKDm)

Tangible fixed assets	2,722	3,656	3,856	4,153
Current assets	8,019	10,840	12,718	14,214
Cash & others	1,597	2,594	4,246	5,742
Total assets	10,740	14,496	16,574	18,367
Operating liabilities	3,108	3,975	3,823	3,823
Gross debt	551	2,316	2,316	2,316
Net debt	-1,046	-278	-1,930	-3,427
Shareholders funds	7,081	8,205	10,195	12,229
Invested capital	6,035	7,927	8,505	8,802

### Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
<b>Y-o-y % change</b>				
Revenue	3.6	31.3	14.3	2.9
EBITDA	-3.8	110.8	31.5	5.1
Operating profit	-11.0	174.6	37.5	5.8
PBT	-22.4	201.4	39.5	7.3
HSBC EPS	-19.2	181.0	46.5	0.7

### Ratios (%)

Revenue/IC (x)	1.8	2.0	2.0	1.9
ROIC	10.9	23.9	29.1	29.2
ROE	8.2	20.9	25.2	22.2
ROA	6.1	13.2	15.4	14.5
EBITDA margin	11.0	17.7	20.4	20.8
Operating profit margin	7.1	14.9	17.9	18.4
EBITDA/net interest (x)	12.1	27.7	39.6	73.5
Net debt/equity	-14.8	-3.4	-18.9	-28.0
Net debt/EBITDA (x)	-0.9	-0.1	-0.6	-1.0

### Per share data (HKD)

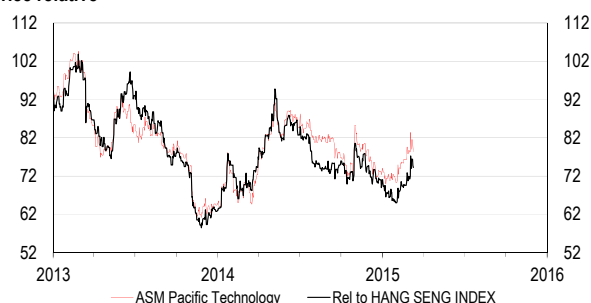
HSBC EPS (fully diluted)	1.40	3.92	5.75	5.79
DPS	0.65	1.28	2.41	3.19
Book value	17.70	20.13	25.25	28.43

### Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	2.8	2.2	1.8	1.7
EV/EBITDA	25.5	12.4	8.9	8.1
EV/IC	5.0	3.9	3.5	3.2
PE*	56.1	20.0	13.6	13.5
P/Book value	4.4	3.9	3.1	2.8
FCF yield (%)	0.9	4.6	6.7	7.0
Dividend yield (%)	0.8	1.6	3.1	4.1

Note: \* = Based on HSBC EPS (fully diluted)

### Price relative



Source: HSBC

Note: price at close of 10 Mar 2015

# Disclosure appendix

## Analyst Certification

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## Important disclosures

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This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at [www.hsbcnet.com/research](http://www.hsbcnet.com/research). Details of these short-term investment opportunities can be found under the Reports section of this website.

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HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.



\*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

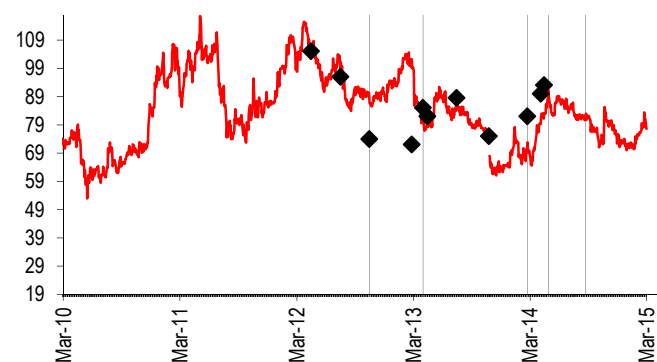
## Rating distribution for long-term investment opportunities

As of 12 March 2015, the distribution of all ratings published is as follows:

Overweight (Buy)	42%	(30% of these provided with Investment Banking Services)
Neutral (Hold)	39%	(28% of these provided with Investment Banking Services)
Underweight (Sell)	19%	(20% of these provided with Investment Banking Services)

## Share price and rating changes for long-term investment opportunities

ASM Pacific Technology (0522.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

### Recommendation & price target history

From	To	Date
Neutral (V)	Underweight	25 October 2012
Underweight	Neutral	10 April 2013
Neutral	Overweight	03 March 2014
Overweight	Neutral	08 May 2014
Neutral	Overweight	01 September 2014
Target Price	Value	Date
Price 1	105.00	25 April 2012
Price 2	96.00	26 July 2012
Price 3	74.00	25 October 2012
Price 4	72.00	06 March 2013
Price 5	85.00	10 April 2013
Price 6	82.00	24 April 2013
Price 7	88.50	25 July 2013
Price 8	75.00	03 November 2013
Price 9	82.00	03 March 2014
Price 10	90.00	14 April 2014
Price 11	93.00	24 April 2014

Source: HSBC



## HSBC & Analyst disclosures

### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
ASM PACIFIC TECHNOLOGY	0522.HK	77.65	11-Mar-2015	1, 5, 6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
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