



BUY

Target Price : IDR1,080

Stock Data

Current Price (IDR)	: 830
52wk Range L-H (IDR)	: 410 - 910
Share Outstanding	: 3.67 Bn
Mkt Capitalization	: 3.04 Tn

Major Shareholders

PT Pratama Indah Lestari	: 30.30%
TEPCO Renewable Power	: 25.00%
Maknawi Henry	: 11.00%
Others	: 22.25%
Public	: 11.45%

As of August 31, 2022



Research Analyst

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PT Kencana Energi Lestari Tbk (KEEN IJ)

Electric Utilities

KEEN to Explore Renewable Energy Market

Renewable Energy Company Steady Income amid Uncertainty

- PT Kencana Energi Lestari Tbk (KEEN) is renewable energy provider, operating hydropower plants in two regions, North Sumatra and Bengkulu, namely PLTA Pakkat and PLTA Air Putih through its subsidiaries, PT Energi Sakti Sentosa and PT Bangun Tirta Lestari, respectively. Moreover, the company is currently developing the Madong PLTM in North Toraja. In addition, KEEN has signed a Power Purchase Agreement (PPA) with the PT Perusahaan Listrik Negara (Persero) (PLN) which are respectively operated by PT Energi Sakti Sentosa (ESS) for 18 MW, PT Bangun Tirta Lestari (BTL) for 21 MW, and PT Nagata Dinamika Hidro Madong of 10MW.
- In 1H22, KEEN posted a revenue of USD20.36 million or rose +11.85% YoY (vs USD18.21 million in 1H21). Concession projects were still the main contributor at 52.08% or USD10.61 million (+18.50% YoY). Meanwhile, operating profit rose by +47.08% YoY to USD16.22 million which caused OPM to rise to 71.53% in 1H22 (vs 50.58% in 1H21). Moreover, net profit rose by +66.34% YoY to USD6.82 million in 1H22, due to decreasing COGS by -42.24% YoY.
- In terms of multiples valuation, KEEN is currently trading at 1.31x PBV (trailing), a relatively lower than its peer's average (1.63x PBV) and median (1.39x PBV). Furthermore, based on earnings, KEEN is currently trading at 20.45x PE (trailing), a 17% highest from its peers. Meanwhile, EV/EBITDA stood at 12.23x, slightly in line with the market (12.14x). We see the potential for an increase in KEEN considering that its valuation is still cheap compared to its peers.

EBT Business Expansion

In line with the development of green energy, KEEN continues to increase its energy capacity to 200 MW up to FY25F (vs currently 64 MW). The company plans to build three hydropower plants in FY23F, namely: 1) PLTA Pakkat 2 in North Sumatra (35 MW); 2) Kalena hydropower plant in South Sulawesi (75 MW); 3) Salu Uro hydropower plant in South Sulawesi (90 MW). To realize the projects, the company has prepared a capex of USD500 million up to FY25F. In addition, KEEN also has a new investor from Japan, namely TEPCO Renewable Power INC after acquiring 25% of KEEN's shares on Feb-22. This collaboration is expected to increase KEEN's potential to further develop the green energy business in the future.

Road to Net Zero Emission FY60F

- The government has planned to do an energy transition from fossil fuel to green energy and create a healthy environment. The government is targeting Net Zero Emission in FY60F, with several steps have been taken to accelerate the development of renewable energy, through Presidential Decree No. 112 of 2022 released on Sep-22. The government has also provided space for PLTUs to operate until 2050 in industrial areas, which will then be replaced with EBT.
- The government plans to apply a carbon tax for steam power plants, with the minimum tariff be IDR30,000 per tons of CO2 equivalent. However, the implementation of this policy is still postponed until FY23E (previously planned for Jul-22) while taking into consideration of the economic conditions.
- We assess the government will continue to carry out a gradual policy to smoothen the implementation of green energy in order to create Net Zero Emissions. Thus, renewable energy companies like Hydropower are potentially to be prospective in the future.

Recommendation BUY for KEEN with TP: IDR1,080

We initiate coverage on KEEN IJ with a BUY call and a target price of IDR1,080 (+30% upside), which implies 1.55x PBV and 10.29x EV/EBITDA in FY22E. KEEN is currently trading close to -0.5STD PBV of 3 years historical mean. We expect KEEN to gain a positive momentum with the development of NRE in Indonesia along with the government's plan of reducing the use of PLTU for net zero carbon by FY60F, as well as the company's capability to achieve stable earnings amid economic uncertainty. Downside risks to our call include: 1) dependence on PLN as the sole customer; 2) increase in the cost of hydropower development; 3) decrease in water intensity during the dry season.

Key Financial Highlight

USD million	FY19	FY20	FY21	FY22E	FY23F
Revenue	23.68	25.39	36.55	39.34	42.52
EBITDA	7.98	10.73	19.00	26.06	28.04
Net Income	2.32	6.72	6.67	12.06	13.70
ROA (%)	0.89	2.34	2.22	3.93	4.32
ROE (%)	1.53	4.29	4.08	6.97	7.35
PE (x)	71.05	30.60	30.80	17.04	15.01
PBV (x)	1.09	1.31	1.26	1.19	1.10

INDUSTRY IN BRIEF

Promising Power Generation Industry

In order to sustain growth and development, government of Indonesia has planned to diversify the energy mix policy and shifting towards a more renewable one. Currently, the primary source for electricity comes from coal-fired power plant with ~44% of market share. Through MEMR, the government has set the target for 23% renewable energy share by 2025 (vs 11.5% in 2021).

One of the key government priority is hydro power plant as Indonesia possesses abundant resources of water and can be found everywhere across the country. As of 2019, hydropower contributes the largest for renewable energy to the Indonesian electricity, which accounted for 7% of market share. However, with the estimated of 94GW potential capacity, Indonesia has only utilized less than 8% of capacity or approximately 5.88 GW.

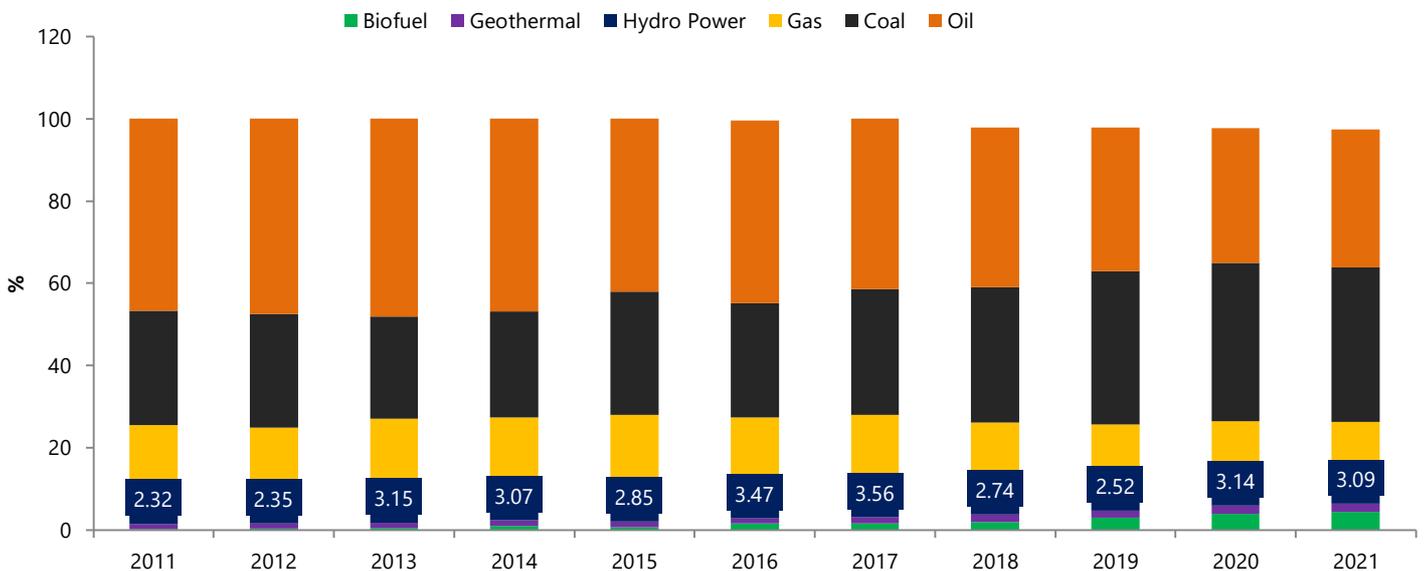
The government targets for 17.9 GW of capacity additions of large projects by 2025, in conjunction with 3 GW of small hydro projects. The RPJMN 2020–2024 has targeted development in eastern part of Indonesia including Papua, Sulawesi, and North Kalimantan as key areas for hydropower to support electrification. As the government proceed to foster renewable energy, despite many persisting challenges, we expect the development of hydropower plant to become one of promising business in energy & utilities sector.

Exhibit 01. Primary Energy Production in Indonesia

Energy	Production	Unit
Crude Oil	240,367.26	Thousand Barrels
Natural Gas (Net)	2,082.13	BSCF
Coal	613,990.26	Thousand Tons
Hydro Power	24,697.21	GWh
Geothermal	15,898.44	GWh

Sources : Handbook of Energy & Economic Statistics, ESDM

Exhibit 02. Share of Supply of Primary Energy in Indonesia



Sources : Handbook of Energy & Economic Statistics, ESDM

Fuel is still the biggest contribution to energy consumption

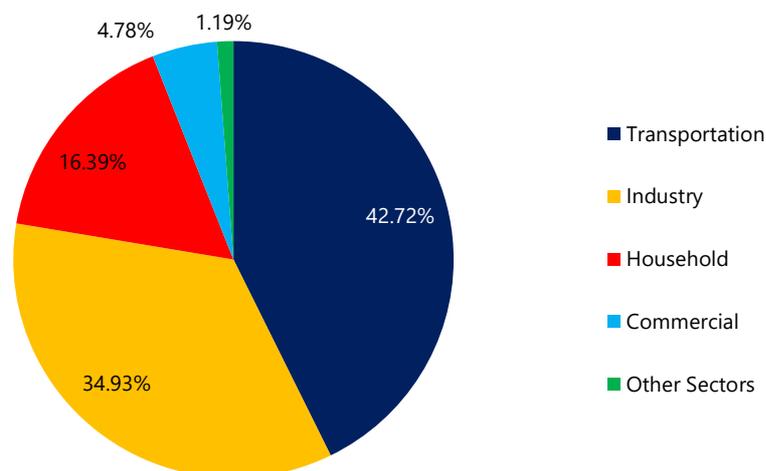
Exhibit 03. Total Energy Consumption by Type

Energy Type	Consumption (million BOE)	Contribution
Coal	87.82	9.66%
Fuel	430.00	47.29%
Gas	89.56	9.85%
Electricity	168.38	18.52%
Briquette	-	0.00%
LPG	72.92	8.02%
Biomass	60.39	6.64%
Biogas	0.18	0.02%
Total Energy Consumption	909.24	100.00%

Sources : Statistik Indonesia, ESDM

The largest energy consumption is still from transportation sector, which is driven by the use of vehicle fuel

Exhibit 04. Total Energy Consumption by Sector



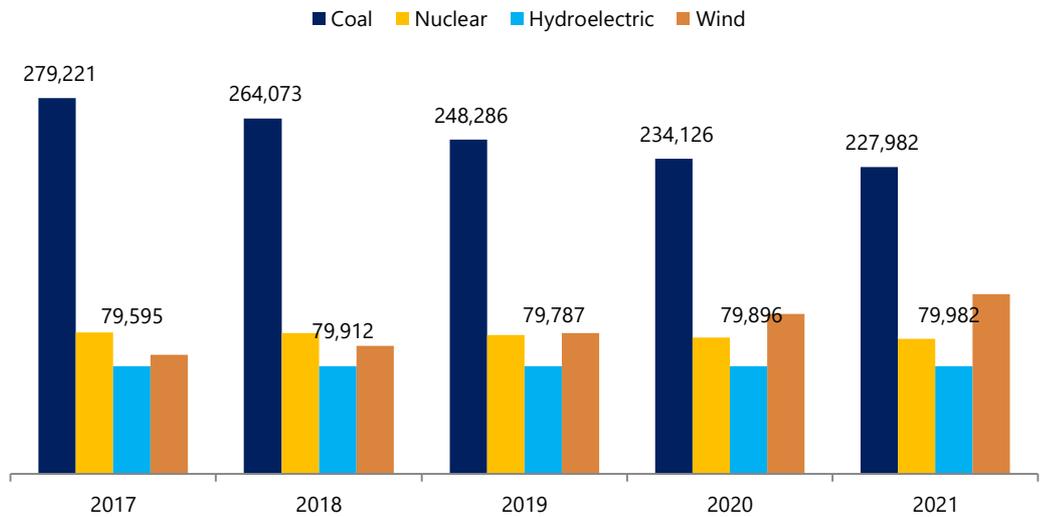
Sources : Statistik Indonesia, ESDM

Exhibit 05. Power Plant Installed Capacity (in MW)

Year	On Grid							
	Hydro PP	Steam PP	Gas PP	Combined Cyclec PP	Geothermal PP	Diesel PP	Gas Engine PP	Wind PP
2011	3,880.83	16,318.00	4,236.02	8,480.97	1,226.00	5,471.93	169.54	0.93
2012	4,078.24	19,714.00	4,343.82	9,461.11	1,336.00	5,973.58	198.74	0.93
2013	5,058.87	23,812.53	4,389.08	9,852.21	1,343.50	5,935.00	448.12	0.63
2014	5,059.06	25,104.23	4,310.50	10,146.11	1,403.50	6,206.99	610.74	1.12
2015	5,068.59	26,447.58	4,495.56	10,293.47	1,438.30	3,824.07	1,101.23	1.46
2016	5,343.59	28,351.97	4,969.24	10,293.47	1,533.30	3,979.40	1,806.99	1.46
2017	5,343.59	30,768.07	4,976.24	10,418.47	1,808.30	4,396.35	2,264.85	1.46
2018	4,461.59	31,587.17	5,348.44	11,220.10	1,948.30	4,630.90	2,357.66	143.03
2019	4,620.52	34,737.17	5,348.44	11,669.54	2,130.70	4,779.68	2,842.03	153.83
2020	4,700.67	36,667.86	5,348.44	12,235.71	2,130.70	4,863.53	3,177.93	153.83
2021	5,050.67	37,036.36	5,348.44	12,411.51	2,286.05	4,986.58	3,218.87	153.83

Sources : PLN Statistics and Electricity Statistics, Directorate General of Electricity, Direktorat General of New and Renewable Energy and Energy Conservation

Exhibit 6. Total US Capacity by Fuel Source (MW)

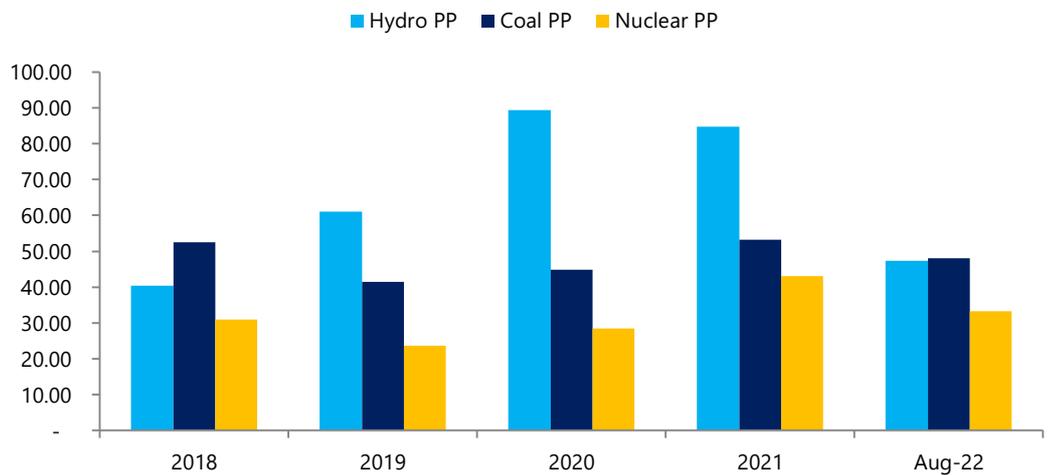


Source : MNCS, Bloomberg

Many of the developing countries, such as US, have started to reduce its reliance of non-renewable energy, such as coal. Up to 2021, the use of coal for electricity in the US had only reached 227,982 MW, down -2.62% YoY or -18.35% from the past 5 years.

However, renewable energy, such as hydropower, grew slowly at a CAGR of +0.12% for the past 5 years, while wind energy experienced a higher average growth of 10.90%. Thus, it shows that the US has started to rely more on renewable energy.

Exhibit 7. China Investment in Power Plants (USD bn)



Source : MNCS, Bloomberg

Likewise, despite being one of the largest coal importers in the world, China has begun to increase investment in its Hydroelectric Power Plants, where in 2021, the total investment was recorded at USD84.80 billion (+30.80% average in the last 4 years).

COMPANY PROFILE

Initially, the company was founded in May 5, 2008 under the name of PT Citra Alam Pratama, and was a producer of renewable energy (EBT) in Indonesia. The company's business activities cover various fields, such as services, electricity (main), construction, trade, industry, investment and transportation.

Currently, the company operates a hydropower plant in North Sumatera, namely PLTA Pakkat through its subsidiary PT Energi Sakti Sentosa, and a hydropower plant in Bengkulu, namely PLTA Air Putih through PT Bangun Tirta Lestari. In addition, KEEN is also developing the Madong PLTM in North Toraja. For the currently constructed powerplant, the company has also signed a Power Purchase Agreement (PPA) with the PT Perusahaan Listrik Negara (Persero) (PLN) which is operated by PT Energi Sakti Sentosa (ESS) for 18 MW, PT Bangun Tirta Lestari (BTL) for 21 MW, and PT Nagata Dinamika Hidro Madong for 10MW.

The Pakkat Hydroelectric Power Plant (PLTA) was developed in a 25,000 hectare watershed (DAS) in the Humbang Husundutan district, North Sumatera. The hydropower plant was operated by PT Energy Sakti Sentosa (ESS) in 2016, and currently has a total capacity of 18 Megawatts (MW) with annual rainfall in the area reaching 4,000 millimeters. The Pakkat hydropower plant can produce up to 125,000 gigawatt hours (Gwh) of electricity per year with a utility rate of 79.27%.

The Air Putih hydropower plant was developed on the Ketahun River and Air Putih River covering an area of 100,000 hectares in the Lebong Regency, Bengkulu. This hydropower plant is operated in 2020 by PT Bangun Tirta Lestari (BTL) with a capacity of 21.90 MW and can produce electricity up to 135,000 GW per year.

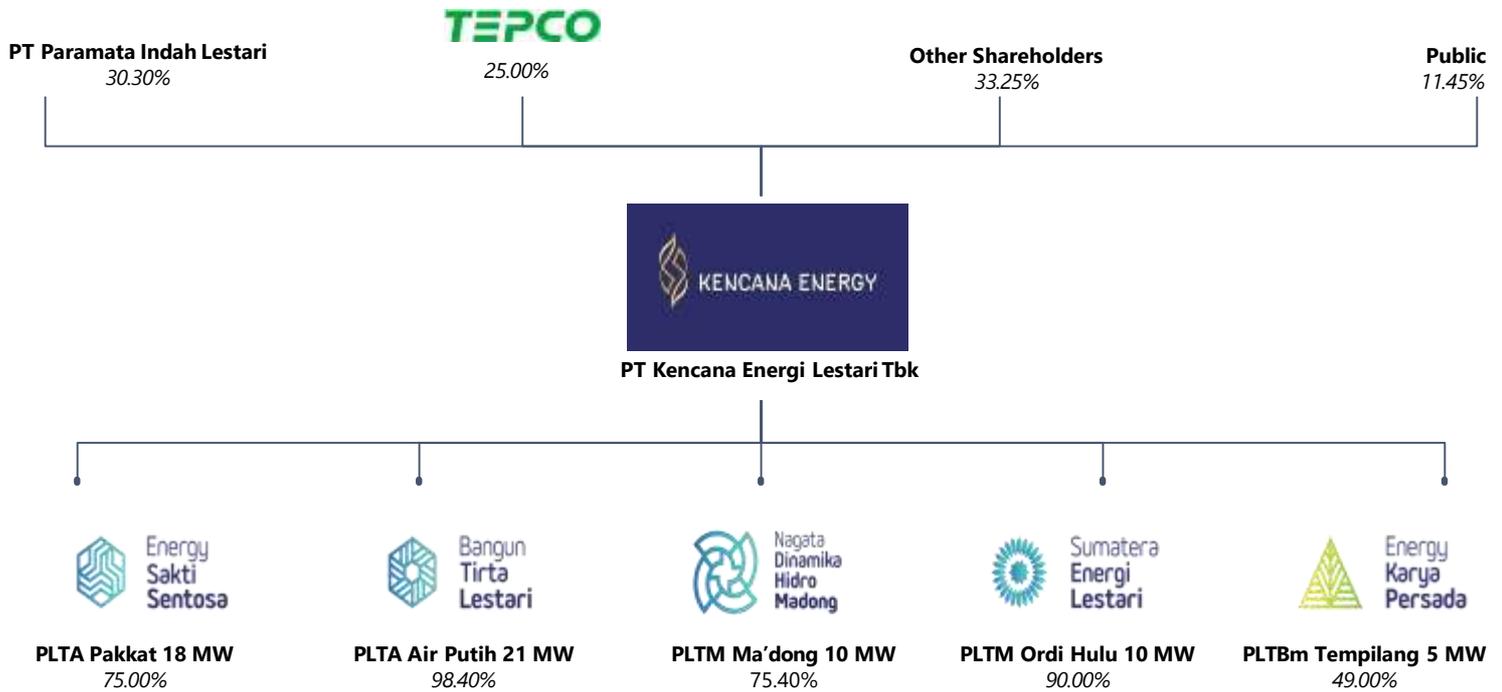
The Madong Micro Hydro Power Plant (PLTM) was developed in the Maiting River, Madong Village, Dende' Piongan Napo District, North Toraja Regency, South Sulawesi. This hydropower plant was built by PT Nagata Dinamika Hidro Madong (NDHM) in 2019 with an installed capacity of 3 x 5.95 MW. The Madong PLTM is targeted to operate in 2022 (initial utilization of around 68%) with an annual electricity production target of 71.68 GWh per year.

Exhibit 8. Company Milestones



Source : Company

Exhibit 9. Company Structure



Source : Company (As of June, 29 2022)

Exhibit 10. Board of Commissioners & Board of Directors

Board of Commissioners



ALBERT MAKNAWI
President Commissioner



JEANNY MAKNAWI JOE
Commissioner



YAMAGUCHI MASAHIRO
Commissioner



SIM IDRUS MUNANDAR
Independent Commissioner



FREENYAN LIWANG
Independent Commissioner

Board of Directors



HENRY MAKNAWI
President Director



WILSON MAKNAWI
Vice President Director



RUSMIN CAHYADI
Director



KAREL SAMPE PAJUNG
Director



GIAT WIDJAJA
Director



TAKASAWA KAZUNORI
Director

Source : Company

PLTA Pakkat

- Location: Humbang Hasundutan Regency, North Sumatera
- Commercial Operation Date: January 31, 2018
- Power Purchase Agreement: 30 Years, BOOT Scheme
- Operation Company: PT Energy Sakti Santosa (Capacity 18 Megawatt)

Exhibit 11. PLTA Pakkat



Source : MNCS, Company Visit

PLTA Air Putih

- Location: Lebong Regency, Bengkulu
- Commercial Operation Date: January 22, 2020
- Power Purchase Agreement: 30 Years, BOOT Scheme
- Operation Company: PT Bangun Tirta Lestari (Capacity 21 Megawatt)

Exhibit 12. PLTA Air Putih



Source : Company

PLTM Ma'dong

- Location: North Toraja Regency, South Sulawesi
- Commercial Operation Date: March 25, 2022
- Power Purchase Agreement: 20 Years, BOOT Scheme
- Operation Company: PT Nagata Dinamika Hidro Madong (Capacity 10 Megawatt)

Exhibit 13. PLTM Ma'dong



Source :Company

PLTBm Tempilang

- Location: West Bangka Regency, Bangka Belitung Islands
- Commercial Operation Date: June 5, 2018
- Power Purchase Agreement: 25 Years, BOOT Scheme
- Operation Company: PT Energy Karya Persada (Capacity 18 Megawatt)

Exhibit 14. PLTBm Tempilang



Source : Company

PLTM Ordi Hulu

- Location: Pakpak Bharat Regency, North Sumatera
- Commercial Operation Date: 1Q24
- Power Purchase Agreement: 25 Years, BOOT Scheme
- Operation Company: PT Sumatera Energi Lestari (Capacity 10 Megawatt)

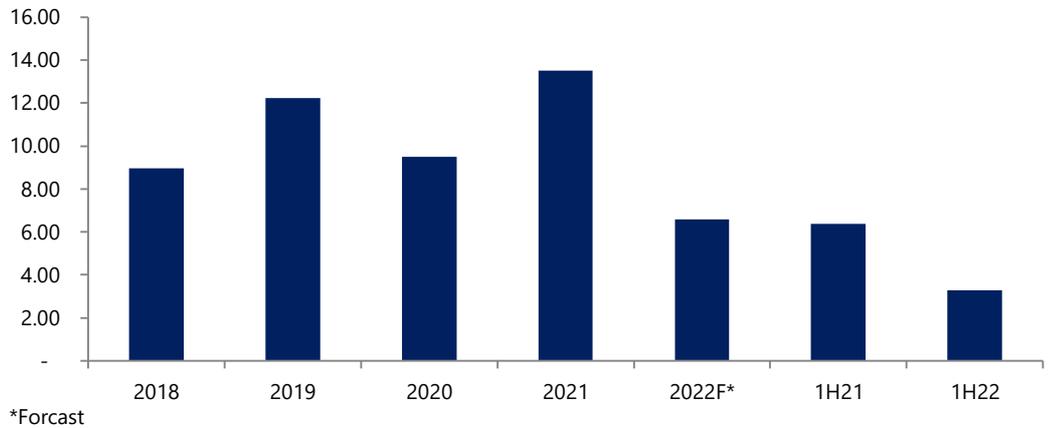
Exhibit 15. PLTM Ordi Hulu



Source :Company

Financial Performance: Thanks to Efficiency!

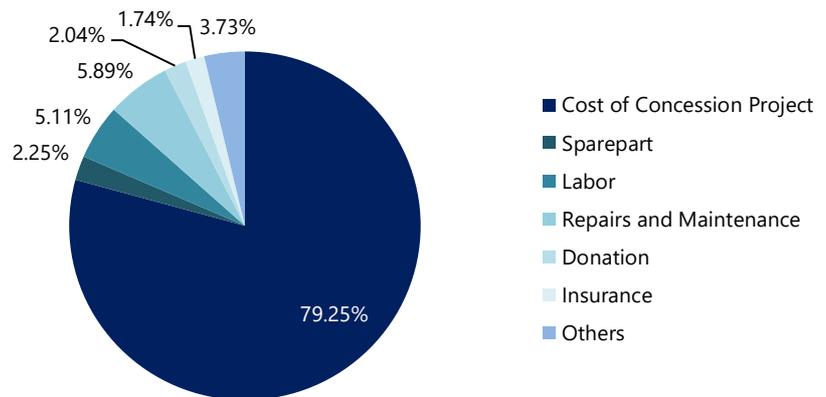
Exhibit 16. The Cost of Project Dropped Significantly in 1H22



Source : MNCS, Company

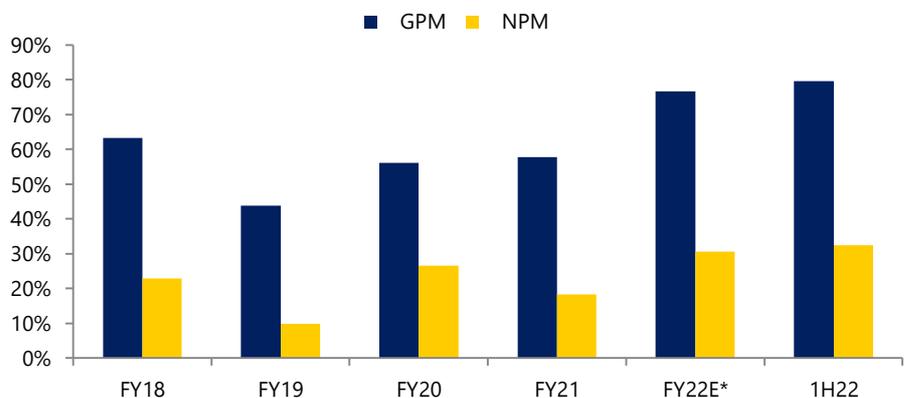
COGS fell significantly by -42.24% YoY to USD4.15 million in 1H22 driven by a decrease in Cost of Project by -48.43% YoY to USD3.29 million (about 80% contribution from COGS) amid an increase in concession revenue of +18.50 % YoY in 1H22. As a result, the increase in the GPM / NPM to 79.63% / 33.48% in 1H22 (vs 60.56% / 22.52% in 1H21) became the positive sentiment for the company.

Exhibit 17. Contribution of COGS in 1H22



Source : MNCS, Company

Exhibit 18. Contribution of COGS in 1H22



Source : MNCS, Company

Peers Comparisons

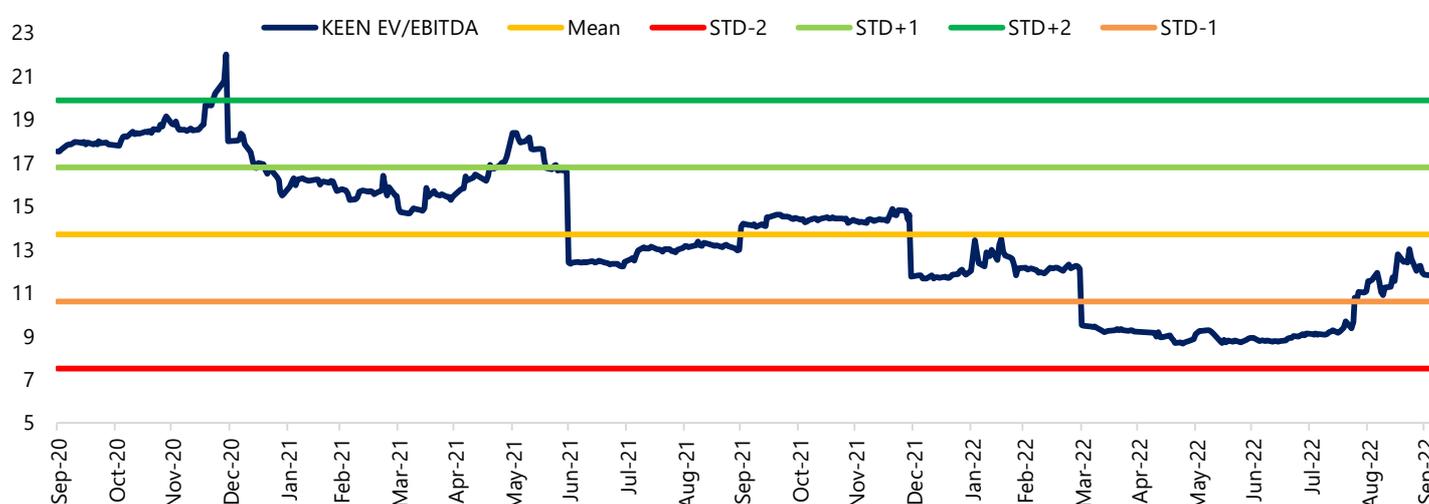
We made comparisons with related industries, and collected 17 companies engaged in Hydropower in several Asian countries. Currently, KEEN is traded at 1.31x PBV (vs 1.69x PBV average peers) and 12.23x EV/EBITDA (vs 12.14x EV/EBITDA average peers), showing KEEN's cheaper valuation than the industry. However, in terms of earnings, KEEN's PER is still 17% above its peers.

Exhibit 19. Regional Peers Comparison

No	Bloomberg Ticker	Company Name	Market Cap (USD mn)	NPM (%) 2021	PER (x)	PBV (x)	EV/EBITDA (x)	ROA (%)	ROE (%)
1	600025 CH Equity	Huaneng Lancang River Hydropower Inc	17,403	28.90	17.77	2.38	13.26	4.33	13.96
2	601985 CH Equity	China National Nuclear Power Co Ltd	15,497	12.89	11.72	1.39	9.60	2.17	12.60
3	600886 CH Equity	SDIC Power Holdings Co Ltd	11,251	5.58	32.47	1.70	12.03	1.02	5.50
4	TPWR IN Equity	Tata Power Co Ltd/The	8,596	3.45	31.68	3.12	15.66	1.65	7.78
5	2638 HK Equity	HK Electric Investments & HK Electric Investments Ltd	6,225	29.18	16.64	1.00	12.82	2.68	6.13
6	JSW IN Equity	JSW Energy Ltd	5,921	11.65	27.88	2.77	15.52	6.03	10.83
7	NHPC IN Equity	NHPC Ltd	4,737	33.76	10.95	1.10	13.02	4.68	10.25
8	RATCH TB Equity	Ratch Group PCL	2,329	20.82	8.80	0.86	18.22	4.71	8.72
9	1381 HK Equity	Canvest Environmental Protection Group Co Ltd	1,523	19.46	8.04	1.30	8.67	6.08	17.50
10	YTLP MK Equity	YTL Power International Bhd	1,189	(1.36)	4.41	0.39	7.74	2.44	9.20
11	SSP TB Equity	Sermasang Power Corp Co Ltd	348	33.08	9.03	1.68	7.36	6.59	21.64
12	KEEN IJ Equity	Kencana Energi Lestari Tbk PT	193	18.26	20.45	1.31	12.23	3.07	6.51
13	CHP VN Equity	Central Hydropower JSC	159	30.74	7.53	2.00	5.56	15.59	26.86
14	TMP VN Equity	Thac Mo Hydropower JSC	155	47.20	8.10	2.68	5.96	23.08	35.97
15	ARKO IJ Equity	Arkora Hydro Tbk PT	132	24.68	15.35	4.08	25.04	7.84	33.72
16	TGRA IJ Equity	Terregra Asia Energy PT	9	15.90	18.78	0.44	17.49	1.61	2.36
17	MPOW IJ Equity	Megapower Makmur Tbk PT	5	5.97	47.30	0.56	6.13	0.70	1.18
Average				20.01	17.46	1.69	12.14	5.54	13.57
Median				19.46	15.35	1.39	12.23	4.33	10.25

Source : MNCS, Bloomberg

Exhibit 20. KEEN is currently trading at -0.5STD at 12.42x EV/EBTDA forward (3-year average)



Source : MNCS, Bloomberg

Exhibit 21. Financial Projections

USD million	Income Statement				
	FY19	FY20	FY21	FY22E	FY23F
Revenue	23.68	25.39	36.55	39.34	42.52
Cost Of Revenue	13.29	11.14	15.42	9.18	10.04
Gross Profit	10.38	14.24	21.13	30.15	32.47
Operating Expenses	2.50	3.72	2.29	3.90	4.22
Operating Profit	7.88	10.53	18.84	26.25	28.25
Finance Cost	4.78	2.67	6.10	5.85	5.93
Finance Income	-	-	0.46	0.46	1.09
Profit Before Income Tax	2.83	3.73	12.46	20.85	23.41
Income Tax Expenses	(0.81)	(4.91)	4.46	7.46	8.38
Profit of the Year	3.65	8.64	8.00	13.39	15.03
Minority Interest	1.33	1.92	1.32	1.32	1.32
Net Profit	2.32	6.72	6.67	12.06	13.71
EPS (IDR)	11.68	27.12	26.94	48.70	55.31

USD million	Balance Sheet				
	FY19	FY20	FY21	FY22E	FY23F
Cash and cash equivalents	5.04	1.95	1.32	7.25	9.26
Trade Receivables	1.30	3.19	3.16	3.47	4.72
Other Current Assets	4.49	8.49	24.88	26.77	28.94
Total Current Assets	10.84	13.63	29.36	37.50	42.92
Fixed Assets - net	0.19	0.21	0.30	1.35	0.73
Other Non-Current Assets	249.79	273.56	271.12	268.41	273.78
Total Non-Current Assets	249.98	273.77	271.42	269.76	274.51
TOTAL ASSETS	260.82	287.40	300.78	307.25	317.42
Trade Payables	7.32	24.93	8.04	4.93	3.43
Short-term Debt	13.50	11.90	9.18	9.87	10.67
Other current liabilities	-	-	-	-	-
Total Current Liabilities	20.82	36.83	17.22	14.81	14.10
Long-term Debt	49.23	59.55	79.89	76.15	76.61
Other Long-term liabilities	39.56	34.49	40.23	43.30	40.30
Total Long-term Liabilities	88.80	94.04	120.12	119.45	116.91
Total Equity	151.20	156.54	163.44	172.99	186.41
TOTAL LIABILITY AND EQUITY	260.82	287.40	300.78	307.25	317.42

USD million	Cash Flow				
	FY19	FY20	FY21	FY22E	FY23F
Net Income	2.32	6.72	6.67	12.06	13.70
Depreciation	(0.10)	(0.20)	(0.16)	(0.19)	(0.22)
Change in Working Capital	3.20	15.72	(16.85)	(3.42)	(2.75)
Change in others	(1.39)	(4.00)	(16.38)	(1.20)	(1.37)
CFO	4.22	18.64	(26.40)	7.25	9.37
Capital Expenditure	(0.15)	(0.22)	(0.24)	(0.30)	(0.62)
Others	(21.72)	(23.77)	2.43	2.71	(5.37)
CFI	(21.87)	(23.99)	2.19	2.42	(5.98)
Dividend Paid	(4.00)	(0.73)	(1.00)	(1.56)	(1.95)
Net Change in Debt	18.14	8.72	17.61	(3.03)	1.25
Equity Fund Raised	19.79	-	-	-	-
Others	(13.37)	(5.88)	7.13	0.85	(0.67)
CFF	20.57	2.10	23.74	(3.74)	(1.37)
Net Cash Increase	10.92	(1.79)	1.53	5.92	2.02
Closing Balance	5.04	1.95	1.32	7.25	9.26

	Ratios				
	FY19	FY20	FY21	FY22E	FY23F
Growth Year on Year					
Revenue Growth	-10.48%	7.21%	43.98%	7.62%	8.09%
Gross Profit Growth	-37.90%	37.15%	48.37%	42.69%	7.71%
Operating Profit Growth	-45.84%	33.57%	79.02%	39.30%	7.65%
Net Income Growth	-61.63%	190.24%	-0.66%	80.74%	13.58%
Profitability					
GPM	43.86%	56.10%	57.82%	76.65%	76.38%
OPM	33.28%	41.46%	51.55%	66.73%	66.45%
EBITDA Margin	33.69%	42.25%	51.99%	66.24%	65.94%
NPM	9.78%	26.47%	18.26%	30.67%	32.23%
ROA	0.89%	2.34%	2.22%	3.93%	4.32%
ROE	1.53%	4.29%	4.08%	6.97%	7.35%
DER (x)	0.72	0.84	0.84	0.78	0.70
Current Ratio (x)	0.52	0.37	1.71	2.53	3.04
Quick Ratio (x)	0.52	0.37	1.71	2.53	3.04

Sources : Company, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

PT MNC SEKURITAS

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