

## Picking Out the Well-Stocked

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Photo by Vladimir Filonov

For Zina Psiola of Clariden Leu, shopping for Russian stocks literally means going shopping.

She visited stores in Kiev, Moscow and St. Petersburg to check out investments in her \$700 million Russia Equity Fund. Customer service at a Perekryostok store run by X5 Retail Group made her decide last June to keep its shares. She sold Sedmoi Kontinent because its store's workers were unable to help her change her watch battery — at Perekryosto they did.



"You just go and look at real life," Psiola, 34, said in a telephone interview from her office in Zurich. "I want to feel the experience of the middle-class person in Russia."

Since she sold Sedmoi Kontinent on June 9, the stock has lagged behind the 80 percent gain of the X5 shares she retained, rising 41 percent.

Between the excursions to stores and a set of financial ratios she uses to find undervalued stocks, her fund returned 37 percent in the last 12 months.

That beat the 31 percent return of the RTS Index, her benchmark, and placed Psiola second among 25 funds that invest in Russia and are sold internationally, according to data from Morningstar.

Psiola trailed only the Prosperity Quest Power Fund, which invests in the electricity industry. Managed by Moscow-based Alexander Branis, that fund has more than doubled in the past 12 months.

Now Psiola is increasing her holdings in banks, which are benefiting from a rapid rise in lending. Gross domestic product expanded 6.8 percent last year in Russia, more than double the pace of the euro region.

Her biggest holding is Sberbank, the stock that analysts call the best proxy for the country's economy and consumer spending. Sberbank controls the bulk of Russian deposits and has branches spanning 11 time zones, from Kaliningrad to Kamchatka regions. Sberbank shares have more than doubled in value over the past year. The company now makes up about 20 percent of Psiola's portfolio following her investment in the bank's \$8.8 billion stock sale in February. She first bought Sberbank in December 2004 at \$454 per share, less than one-eighth the current price.

She is now looking to diversify into other banks and shrink the share of her fund occupied by Sberbank. She is mulling putting money into VTB Group, the country's second-largest bank, which started accepting bids last week for its initial public offering.

VTB plans to raise as much as \$6 billion from the sale of one-quarter of its stock to Russian and foreign investors this year. VTB's profit last year more than doubled to \$1.2 billion from \$511 million, the bank said last week.

Psiola is also investing in companies that are rebuilding the country's aging roads, rails and electrical system. She owns shares in pipemaker TMK, and she's thinking of buying into Novolipetsk Steel, the country's most profitable steelmaker.

She is also considering buying more shares in Norilsk Nickel, the country's biggest mining company, which is trading at a discount to its competitors, she said. Norilsk shares trade at 10.6 times estimated 2006 earnings, compared with an average price-to-earnings ratio of 15 for Russian metals companies, according to Alfa Bank.

That ratio for Norilsk looks "extremely attractive," she said. Shares in the company have nearly doubled in value over the past 12 months.

To fund the purchases Psiola has been selling the oil and gas producers that make up half of the RTS. She has slashed her holdings in the energy industry to 19 percent of the fund, compared with 45 percent at the end of September, by selling companies such as LUKoil.

Psiola predicts that some of these companies will see their earnings per share decline in 2007. At a time when oil is below its peak of last July, Russian oil producers also are being hit by the ruble's 7 percent rise against the dollar in the past 12 months. That reduces ruble revenues from dollar-priced oil.

Shares of Gazprom are down 11 percent this year, while those of LUKoil have fallen 4.2 percent.

Paring holdings of an industry that dominates the benchmark index is a risk, said Vladimir Matias, managing partner at Asset Capital Partners. Russian oil firms' prices are attractive compared with their global peers because they have lower production costs, he said.

"LUKoil is undervalued," Matias said. Shares in the company trade at 9.5 times future earnings, compared with 12.4 times future earnings at ExxonMobil, the world's biggest publicly traded oil company. LUKoil shares have dropped 9.1 percent in the last year and Exxon shares are up 25 percent.

The Morgan Stanley Capital World Energy Index trades at 11 times estimated earnings, about the same as that for an MSCI index of Russian energy stocks.

Psiola grew up on the Ukrainian Black Sea coast and attended Moscow State University, graduating with a diploma in mathematics in 1994. She won a scholarship in 1997 to study at the London School of Economics for three months, and in 1998 she moved to London to work in Enron's energy-trading unit in Britain.

In 2000, Psiola got a job in Zurich working on mergers and acquisitions for Credit Suisse Group, and in 2004 took over as portfolio manager of the Russia fund at Clariden Leu, a private-banking unit of Switzerland's second-largest bank. To take her mind off fund management, she hikes in the Alps.

Her mathematical background means she "looks at the world in figures," she said. She will only buy a company that she can hope to sell later for a 20 percent profit. Her favorite ratio is that of a company's enterprise value to its earnings before interest, taxes, depreciation and amortization.

Numbers can be more reliable than her other method of research — pretending to be a consumer. Psiola had intended to open an account to test banking service during a recent trip to Krasnodar, but when she saw how long the lines were, she gave up.

"I only had one hour," she said. "It requires lots of time to open an account."

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