

Buffett Back for More in Japan

Published April 26, 2023

Hyun Kang

Research Analyst

The Oracle of Omaha is upping the stakes in his bet on Japan, bringing his investments in each of Japan's five largest trading companies from 5% to 7.4%.

Berkshire Hathaway revealed in August 2020 that it had invested over \$6 billion in major Japanese general trading companies Sumitomo, Marubeni, Mitsui & Co., Mitsubishi and Itochu; establishing a 5% stake in each.

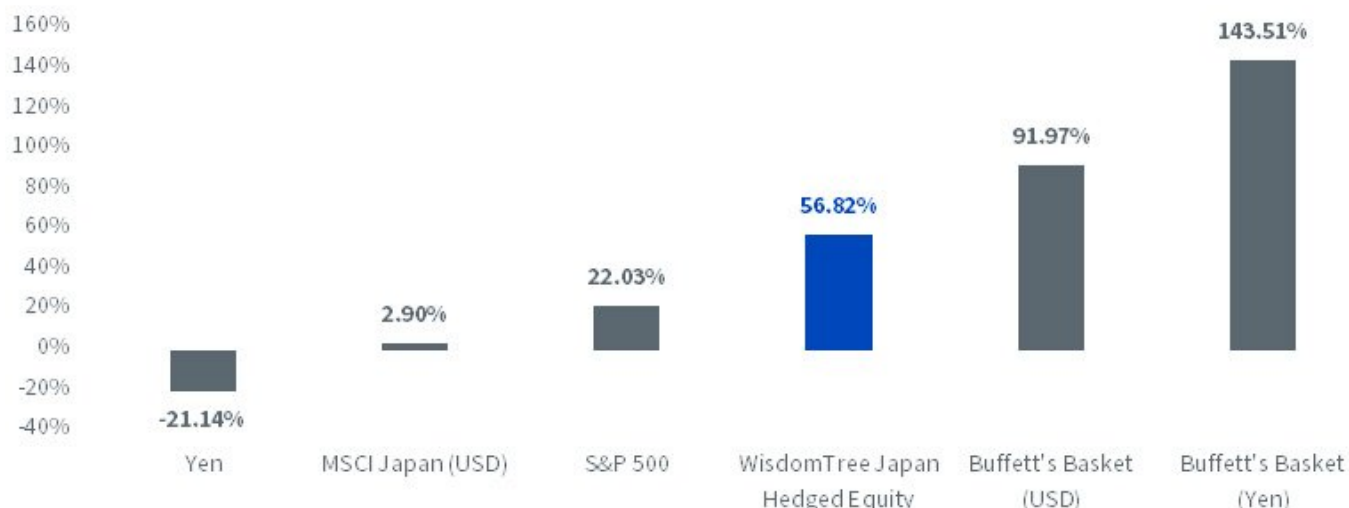
These trading companies, or *sogo sosha*, are household names not only in Japan but around the world, and their myriad business activities range from trading natural gas to manufacturing cruise ships.

Buffett already went for seconds (or more) following his initial plunge and had increased his ownership to between 6.2% and 6.8% across the companies by November last year. And the billionaire investor is showing no signs of slowing down.

We previously discussed [Buffett's strategy to issue yen-denominated bonds to hedge against unfavorable yen-dollar movements](#): a goal shared by the [WisdomTree Japan Hedged Equity Index](#).

Since then, the yen slid further as the Index and Buffett's Japanese basket saw greater returns, having put to full use their currency hedging mechanisms.

Total Returns, 8/28/20–4/10/23



Sources: WisdomTree, S&P, MSCI. 8/28/20 represents the final trading day prior to the public announcement of Berkshire Hathaway's stakes in these companies. You cannot invest directly in an index. Past performance is not indicative of future returns. Buffett's Basket: Average returns of Itochu, Marubeni, Mitsui, Mitsubishi and Sumitomo. Berkshire Hathaway bought roughly 5% stakes in each company.

For definitions of terms in the chart above, please visit the [glossary](#).

In an interview during his April trip to Japan, Buffett told Nikkei, "We would love if any of the five [companies] would come to us ever and say, 'We're thinking of doing something very big or we're about to buy something and we would like a partner or whatever.'"

Fundamentals

	Div. Yield	Shareholder Yield	Earnings Yield	P/E	ROE
WisdomTree Japan Hedged Equity	3.8%	4.8%	11.3%	8.9x	12.2%
MSCI Japan	2.6%	3.9%	6.5%	15.4x	8.1%
Buffett's Basket	3.8%	4.9%	17.5%	5.7x	18.1%
<i>Sumitomo Corporation</i>	5.3%	5.3%	20.5%	4.9x	16.3%
<i>Marubeni Corporation</i>	4.2%	2.7%	18.3%	5.5x	21.9%
<i>Mitsui & Co., Ltd</i>	3.3%	7.0%	17.4%	5.7x	18.6%
<i>Mitsubishi Corporation</i>	3.4%	5.0%	18.1%	5.5x	16.2%
<i>Itochu Corporation</i>	3.0%	4.4%	13.0%	7.7x	17.4%
S&P 500	1.65%	3.88%	4.70%	21.09x	18.41%

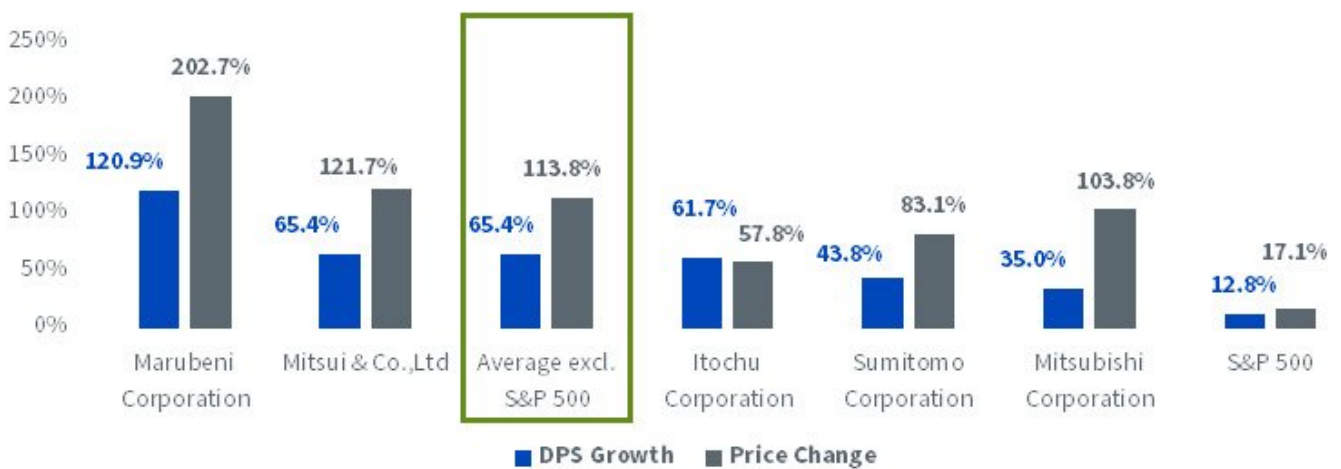
Sources: WisdomTree, S&P, MSCI, as of 3/31/23. You cannot invest directly in an index. Past performance is not indicative of future returns. Buffett's Basket represents a simple average of the valuations/characteristics of the companies.

In another interview with CNBC’s Becky Quick during his Tokyo trip, Buffett effectively said he was putting his stamp of approval on investing in Japan. He went on to describe how the five companies he had acquired had 14% earnings yields at the time of his purchase when interest rates were effectively zero.

Buffett said the companies reportedly grew dividends by 70%. “It has worked out even better than expected,” he said. Japan is now Berkshire’s largest country in terms of investments outside the U.S.

Marubeni Corporation grew its dividends by a whopping 120% since August 2020. Mitsubishi Corporation saw a modest growth of 35%. By comparison, the S&P 500 increased its dividends by 12.8% through the same period.

Dividends per Share and Price Increase of Buffett’s Japanese Stocks Since Initial Investment



Sources: WisdomTree, S&P, 8/28/20—4/10/23. Past performance is not indicative of future returns.

These five trading companies raising their dividends is emblematic of what is happening across Japan as pressures to improve shareholder returns pile on, as we discussed in [this blog about actions the Tokyo Stock Exchange is taking](#) on companies trading at prices below their book values.

Percentage of WisdomTree Index Constituents with a Price-to-Book under 1.0



Sources: WisdomTree, 6/30/06–3/31/23. You cannot invest directly in an index. Past performance is not indicative of future returns.

Japanese companies have some of the highest levels of cash on their balance sheets, which depresses returns on equity compared to companies in the U.S. This cash, however, is also the driving force behind sustained dividend growth.

The aggregate dividend yield on the WisdomTree Japan Hedged Equity Index is almost 4%—close to that of the highest-dividend subset of the U.S. market—while the S&P 500 Index currently has an aggregate dividend yield of around 1.6%.

Over the last decade, the WisdomTree Japan Hedged Equity Index’s dividends per share increased by 13.5% annually, compared to more modest increases for the S&P 500 and the MSCI EAFE index.

The WisdomTree Japan Hedged Equity Index’s dividends surged ahead of the S&P 500’s in the last three years and in the last five years, while developed markets saw significant aggregate decreases.

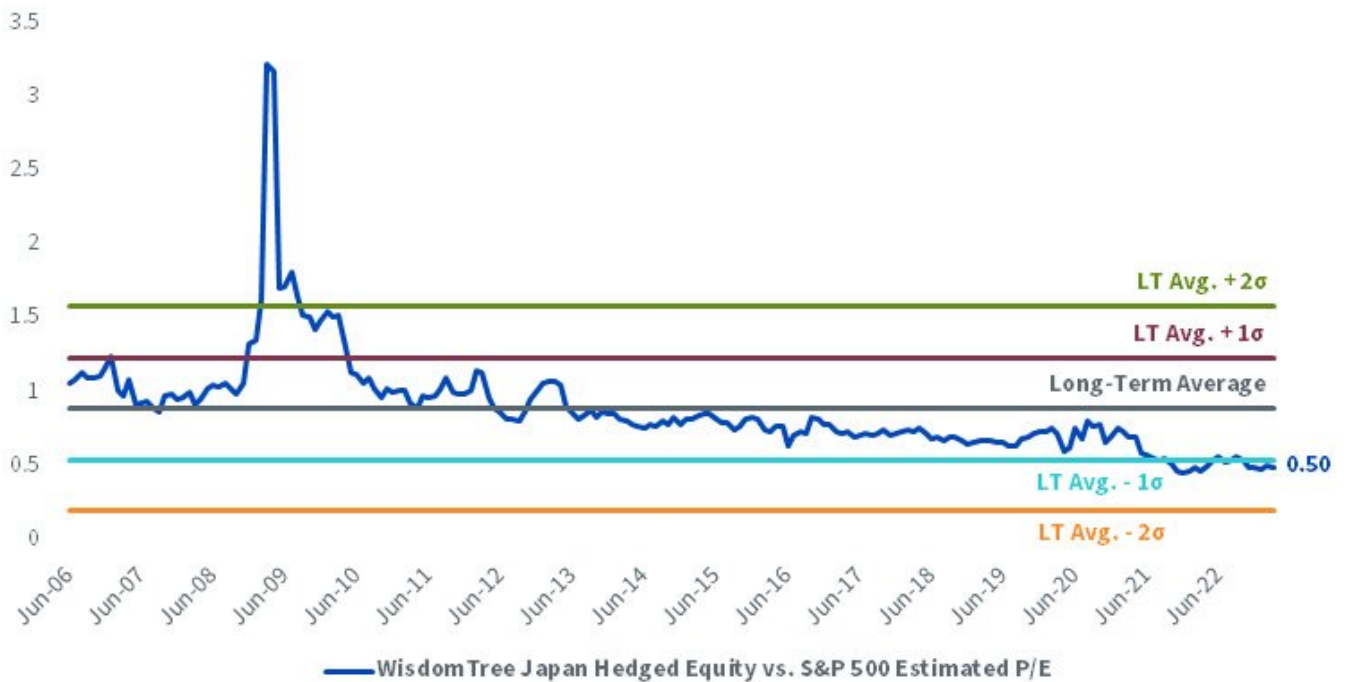
Index Dividends Per Share Growth Over the Last 10 Years, Annualized

	Dividends Per Share Growth		
	3-Year	5-Year	10-Year
WisdomTree Japan Hedged Equity	19.9%	15.5%	13.5%
S&P 500	4.9%	6.5%	7.6%
MSCI EAFE	-13.6%	-7.9%	4%

Sources: WisdomTree, 3/31/13–3/31/23. You cannot invest directly in an Index. Past performance is not indicative of future returns.

The WisdomTree Japan Hedged Equity Index has also been trading at a discount to the S&P 500 for the last decade and currently trades at half of the S&P 500’s forward P/E.

WisdomTree Japan Hedged Equity vs. S&P 500 Forward P/E Since Inception



Sources: WisdomTree, 6/30/06–3/31/23. 6/30/06 represents the Inception date of the WisdomTree Japan Hedged Equity Index. Data represents the forward P/E ratio of the WisdomTree Japan Hedged Equity Index divided by that of the S&P 500 Index. You cannot invest directly in an Index. Past performance is not indicative of future returns.

WisdomTree Japan Hedged Equity vs. S&P 500 Valuation Discounts

WisdomTree Japan Hedged Equity Index				
Metric	3/31/23 Value	Long-Term Avg.	Current Discount	Premium/Discount Percentile Rank (Higher = Better)
P/E	9.0x	14.1x	-36.4%	95.1%
Fwd. P/E	9.3x	13.8x	-32.6%	97.4%
P/B	1.0x	1.2x	-14.7%	74.0%
P/S	0.6x	0.7x	-5.7%	65.4%

S&P 500				
Metric	3/31/23 Value	Long-Term Avg.	Current Discount	Premium/Discount Percentile Rank (Higher = Better)
P/E	20.4x	19.0x	7.4%	30.1%
Fwd. P/E	18.6x	17.9x	4.1%	29.3%
P/B	3.9x	3.2x	22.4%	18.3%
P/S	2.3x	1.7x	38.2%	8.6%

Sources: WisdomTree, FactSet, 6/30/06–3/31/23. You cannot invest directly in an index. Past performance is not indicative of future returns.