

SoftBank Top Holding: Our New Japan ETF Provides Indirect Exposure to Alibaba

Published May 19, 2014

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Alibaba Group Holding Ltd. recently filed with U.S. exchanges¹ for approval to sell shares to the public for the first time, which could amount to one of the largest initial public offering (IPO) in history. Alibaba is an Internet-based e-commerce business, similar to companies like Amazon² and eBay³, but it is even larger than the combination of the two from a revenue perspective. From a business model perspective, it includes online payments, cloud services, online travel, music and video streaming, e-learning and even financial services. A lure among investors is Alibaba's unparalleled access to more than 1.3 billion potential consumers in China and, more importantly, potential access to China's growing middle class.

SoftBank Corp. Has Benefited from Alibaba One of the beneficiaries, if there were no further dilution of its stake through the IPO⁴, of Alibaba's success is SoftBank Corp., which owns approximately 34.4% of Alibaba. SoftBank⁵ is the largest holdings in the WisdomTree Japan Hedged Tech, Media and Telecom Fund (DXJT). For current holdings of DXJT [click here](#). Since the start of "Abenomics", SoftBank is up about 150%, approximately three times the TOPIX return of 53%.⁶ Please keep in mind that high double-digit and/or triple-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were achieved primarily during favorable market conditions. There is no question that the Abenomics policies have helped profitability and equity returns of both SoftBank and broad Japanese equities and many investors are optimistic about Alibaba, but without access to it, they have the opportunity to purchase SoftBank to gain exposure to Alibaba. SoftBank recently announced record earnings for its most recent fiscal year, proudly boasting about generating more than ¥1 trillion of operating profit, a 36% increase year-over-year.⁷ SoftBank also reported that Alibaba Group's net income grew four times year-over-year to more than ¥350 billion. Transaction volume for Alibaba also surged to ¥25 trillion, outpacing eBay's and Amazon's combined ¥16 trillion. SoftBank stated that Alibaba contributed ¥74.4 billion of the ¥586.1 billion, or approximately 13%, of its reported net income. Alibaba's estimated market value ranges from ¥12.5 trillion to ¥20.0 trillion (US\$125 billion to US\$200 billion) based on analyst estimates, so given SoftBank's 34.4% ownership, its stake could potentially be valued at between ¥4.3 trillion and ¥6.9 trillion (US\$43 billion to US\$69 billion). Considering that SoftBank's market value was ¥9.36 trillion (US\$91 billion) at the end of the reporting period⁸, Alibaba's value could represent anywhere from 45% to 75% of SoftBank's market value.⁹ If the projected valuation range for Alibaba is accurate, I find it very interesting that Alibaba represents such a large percentage of SoftBank's market value. Alibaba has reported that SoftBank will continue to own more than 30% of its issued and outstanding ordinary shares after the completion of the initial public offering¹⁰. But it is also important to consider that even without the Alibaba equity ownership, SoftBank was profitable over the reporting period and has other business

ventures and pursuits. Last year, SoftBank successfully took control of Sprint¹¹ and is pursuing a deal with T-Mobile¹². Masayoshi Son¹³ has attributed the ultra-low financing that is available in Japan as a key factor in helping spur mergers and acquisitions. Given his longer-term outlook and the cheap financing, it is clear that SoftBank desires to continue growing, and he views Alibaba as a strategic partner for its long-term success.

WisdomTree Japan Hedged Tech, Media and Telcom Fund (DXJT) WisdomTree developed five new Japan sector exchange-traded funds (ETFs) designed to be vehicles for investment themes stemming from Abenomics, depending on investors' objectives. DXJT is designed to provide exposure to tech, media and telecom companies in Japan, while at the same time hedging the currency exposure. The Fund has more than 60% weight in the Information Technology sector and approximately 20% in both the Telecommunication Services and Consumer Discretionary sectors. Currently, the Fund's top holding is SoftBank, with a weight of 9.99%¹⁴. With this large allocation to SoftBank and how much of its market cap is derived from Alibaba, some may want to look to DXJT as an indirect way to participate in the potential growth of Alibaba.

Abe's Growth Strategies I believe equity markets will remain supported as Abenomics continues to gain traction and especially as Japanese prime minister Shinzo Abe makes more progress on his growth strategy for Japan the third arrow of Abenomics. Abe is pursuing pro-business issues by arguing for a lower corporate tax rate and urging companies and investors to stay focused on generating profits. Technology companies should also receive a boost from new government initiatives supporting additional capital spending and tax policies encouraging business consolidation. DXJT, with the heavy weight to SoftBank, is even more in focus now with news of this latest IPO.

¹New York Stock Exchange and the NASDAQ Global Market

²Amazon was a constituent of the WisdomTree Earnings 500 Fund (0.009%) and the WisdomTree Total Earnings Fund (0.002%) as of 5/1/14

³eBay was a constituent of the WisdomTree Earnings 500 Fund (0.27%) and the WisdomTree Total Earnings Fund (0.24%) as of 5/1/14

⁴Source: Alibaba Registration Statement

⁵SoftBank was also a constituent of the WisdomTree DEFA Fund (0.13%) and WisdomTree International LargeCap Dividend Fund (0.16%) as of 5/1/14

⁶Source: Bloomberg, 11/30/12–4/30/14

⁷Source: SoftBank earnings presentation, 5/7/14

⁸Reporting period 3/31/13–3/31/14

⁹Sources: WisdomTree, Bloomberg, 3/31/14

10The drop from the current ownership stake of approximately 34.4% to more than 30% is an estimate of the impact of dilution on SoftBank's ownership stake. It is impossible to know with certainty how this picture will look after the IPO, but the point is that SoftBank is likely to remain a major stakeholder in Alibaba and is reasonable given public information up to 5/1/14

11Sprint was not a constituent of any WisdomTree Fund as of 5/1/14

12T-Mobile was a constituent of the WisdomTree Total Earnings Fund (0.018%) and the WisdomTree Earnings 500 Fund (0.005%) as of 5/1/14

13Masayoshi Son is founder and chief executive officer of SoftBank

14Source: WisdomTree, 5/1/14

Important Risks Related to this Article

Holdings subject to change. Current and future portfolio holdings are subject to risk. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing their investments on certain sectors increase their vulnerability to any single economic, regulatory or sector-specific development. This may result in greater share price volatility. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. The Fund uses various strategies to attempt to minimize the impact of changes in the Japanese yen against the U.S. dollar, which may not be successful. Investments in derivative investments can be volatile, may be less liquid than securities and may be more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.