

Markets

Buffett’s Berkshire Wagers \$6 Billion on Japan Trading Firms

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- Itochu, Marubeni, Mitsui jump after Berkshire discloses stakes
- Buffett says he’s ‘delighted’ to participate in Japan’s future



Japan Trading Companies Surge After Berkshire Declares Stake

Warren Buffett’s Berkshire Hathaway Inc. bought stakes in five of Japan’s biggest trading companies, adding to the billionaire investor’s wager on the commodities sector and marking one of his largest-ever forays into Asia’s second-largest economy.

The investments into commodity-centric Japanese conglomerates known as “sogo shosha,” disclosed in a statement from Berkshire on Monday in Tokyo, underscore Buffett’s willingness to bet on economically sensitive companies despite the pandemic. Valued at more than \$6 billion, his wager comes as global investors have pulled \$43 billion from Japanese stocks this year in favor of high-flying U.S. technology shares and other companies viewed as more resilient to economic turmoil.

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Berkshire said it acquired stakes of about 5% in Itochu Corp., Marubeni Corp., Mitsubishi Corp., Mitsui & Co. and Sumitomo Corp. over the past twelve months. Shares of all five companies jumped at least 4% in Tokyo trading on Monday and Japan’s benchmark Topix index rose as much as 1.9%.

While Buffett has stayed relatively cautious with his record cash hoard since Covid-19 rippled through the global economy, his Omaha, Nebraska-based conglomerate has been adding to its commodities exposure with deals including a \$4 billion agreement to purchase most of

Valuations in the sector have cheapened relative to the broader stock market in recent years, weighed down by falling commodities prices and investors’ preference for growth stocks like Amazon.com Inc. Most of the Japanese companies targeted by Berkshire trade at less than book value and offer higher dividend yields than the Topix.

“These trading companies generate strong cash flow, they pay out a lot of dividends and they have businesses that can’t be easily replicated,” said Thanh Ha Pham, an analyst at Jefferies Japan Ltd.

Buffett’s wager could help bolster sentiment toward both commodity plays and Japan. The \$5 trillion economy is not only grappling with a persistent coronavirus outbreak and the postponement of the Tokyo Olympics, it’s also going through a leadership transition after Prime Minister Shinzo Abe announced his resignation for health reasons last week. Before its rally on Monday, the Topix had dropped for three straight days and underperformed regional peers in 2020.

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Berkshire said it plans to hold the Japan investments for the long term and has pledged to only own as much as 9.9% of the shares in any of the five companies, unless given specific approval by the investee firm's board of directors.

"It's bright news for not only the company but also Japan's stock market," an Itochu spokesman said. Mitsubishi said it has been contacted by Berkshire but isn't able to provide further details. Sumitomo said it will engage in dialogue.

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“I am delighted to have Berkshire Hathaway participate in the future of Japan,” Buffett said in the statement. “The five major trading companies have many joint ventures throughout the world and are likely to have more of these partnerships. I hope that in the future there may be opportunities of mutual benefit.”

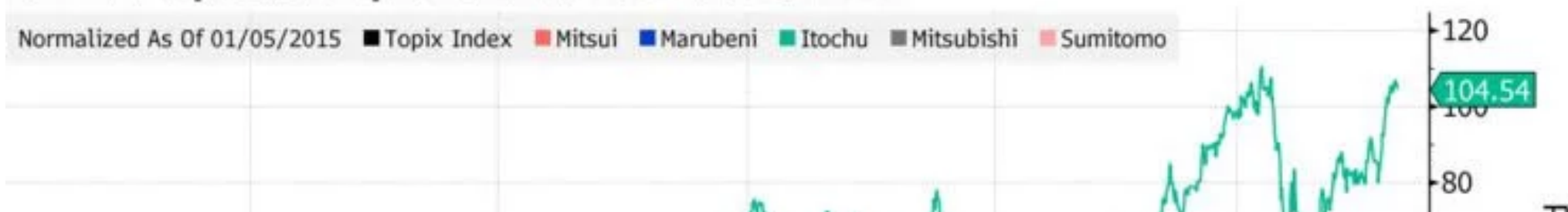
Buffett visited Japan after its 2011 tsunami and nuclear disaster, but he has stayed mostly quiet on investments in the country until now. Speculation that he might be eyeing Japanese stocks has been swirling since September 2019, when Berkshire completed the biggest-ever yen-denominated bond sale by a non-Japanese borrower.

Japan’s trading houses have roots dating back hundreds of years. They supply the resource-poor nation with everything from natural gas to noodles, and have spent the last few decades transforming into conglomerates that hold equity stakes in hundreds of companies around the world. While they’ve diversified into areas like textiles and machinery, they still derive much of their revenue from energy, metals and other commodities.

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turn to Berkshire for funding as quickly as U.S. companies might. Berkshire’s offshore wagers include China’s BYD Co. and Brazilian payment company StoneCo Ltd.

This isn’t the first time Buffett has invested in multiple competitors from one sector. Berkshire took stakes in four major U.S. airlines in 2016, though it ended up selling in 2020 as the pandemic brought most air travel to a halt. The company is also a major investor in several U.S. banks.

Buffett, who celebrated his 90th birthday on Aug. 30, has built Berkshire into a conglomerate valued at more than \$521 billion, with operations ranging from insurers to industrial giants like Precision Castparts Corp. and retailers such as Fruit of the Loom. Berkshire’s equity portfolio totaled about \$207 billion at the end of June, while it’s cash pile grew to a record \$146.6 billion. The stock has slipped 3.6% this year, versus an 8.6% gain for the S&P 500 Index.

– *With assistance by Tom Redmond, and Masumi Suga*

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