

A Study of Global Structural Changes from Market Capitalization Trends

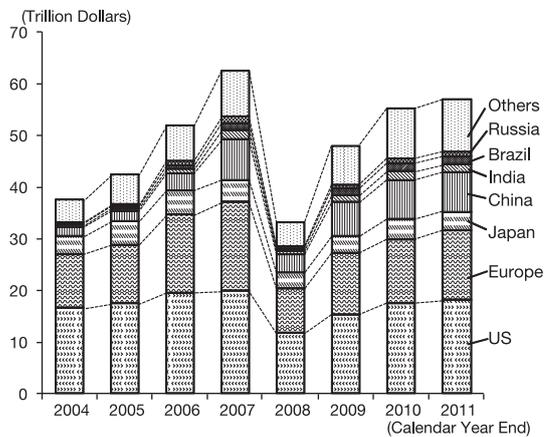
Business Management Group
1st Research Department
Yuko Ueda

Market capitalization is the product of the price per share and the number of shares issued, and is deemed as the capital market's evaluation of the shareholders' capital value with regard to the company at the time of evaluation. Some characteristics of market capitalization include immediate ability to grasp size of firm, comparability by industry, country or region, and comparability between companies, industries, countries and by year. In other words, it can be utilized as an indicator of the capital market's expectation toward the potential of individual countries, regions, industries, or companies. While noting that precaution is needed against an economic bubble, where excessive expectations may lead to soaring share prices, Hitachi Research Institute provides an analysis of global market capitalization trends with above reference to the viewpoint.

This paper describes changes in the total global market capitalization in recent years (2004 to 2011) as well as global structural changes that have taken place since the Lehman Shock (by country/region and company) by comparing the market capitalization trends before the Lehman Shock (September 2008) with recent data (end June 2011).

1. Changes in Total Global Market Capitalization

The total market capitalization of the major securities exchanges in the world (51 exchanges in 55 countries) grew from \$37.2 trillion since end 2004 to \$62.2 trillion by the end of 2007. However, after the Lehman Shock in September 2008, it shrank by about half that amount to \$32.8 trillion by the end of 2008, and began to rise again following the economic recovery to \$56.6 trillion by the end of June 2011, a level that is about 91% of 2007 end of year levels (Figure 1).



Country/Region	Market Capitalization (Trillion Dollars)								2011/2004 (Times)	Composition	
	2004	2005	2006	2007	2008	2009	2010	2011		2004	2011
US	16.2	17.2	19.3	19.7	11.5	15.1	17.3	17.9	1.10	44%	32%
Europe	10.4	11.3	15.0	17.1	8.6	11.8	12.4	13.4	1.29	28%	24%
Japan	3.6	4.6	4.6	4.3	3.1	3.3	3.8	3.7	1.03	10%	6%
US/EU/JPN Total	30.2	33.1	38.9	41.1	23.2	30.2	33.5	34.9	1.16	81%	62%
China	1.8	1.9	3.5	7.8	3.5	6.5	7.6	7.6	4.34	5%	13%
India	0.4	0.6	0.8	1.8	0.6	1.3	1.6	1.5	3.90	1%	3%
Brazil	0.3	0.5	0.7	1.4	0.6	1.3	1.5	1.6	4.70	1%	3%
Russia	0.2	0.3	0.9	1.2	0.3	0.7	0.9	1.0	6.67	0%	2%
BRIC Total	2.6	3.2	5.9	12.2	5.0	9.9	11.7	11.7	4.46	7%	21%
Others	4.4	5.8	6.8	8.9	4.6	7.6	9.8	10.0	2.28	12%	18%
Agg. Total	37.2	42.1	51.6	62.2	32.8	47.7	55.0	56.6	1.52	100%	100%

Note: Values as at end June 2011. Data on China includes Hong Kong and Taiwan.

Prepared by Hitachi Research Institute based on data from the World Federation of Exchanges

Figure 1: Changes in Total Global Market Capitalization in Recent Years

By comparing market capitalization at the end of June 2011, with that at the end of 2004, BRICs grew by 4.46 times, while the total for the US, Europe and Japan increased by 1.16 times. In particular, Japan maintained almost the same level at 1.03 times. With an increase in the global market cap composition ratio from 7% at end 2004 to 21%, BRICs countries increased their presence globally.

2. Remarkable Development of Emerging Market Enterprises

If we compare the listing country/region of the top 500 market capitalization companies in the world at the end of June 2008, with that at the end of June 2011, China

(including Hong Kong and Taiwan) marked the largest increase of 16 (from 37 to 53 firms), followed by India with 8 (9 to 17 firms) and Korea with 4 (4 to 8 firms). Regions with the largest decrease are the US with -13 (170 to 157 firms), followed by Japan with -7 (39 to 32 firms), and Europe with -4 (148 to 144 firms). The economic outlook in advanced nations remains unclear: unemployment and housing price issues in the US; chaos in Japan after the Great East Japan Earthquake; European countries facing the sovereign debt crisis; and fast-growing enterprises from emerging markets have increased in the top 500 positions.

3. Changes in the World's Top Market Capitalization Companies

By looking at the top 10 companies by market capitalization at the end of June 2011, by country and sector, the US and the energy sector topped the ranking, each occupying five spots out of 10 (Table 1).

Table 1: Top 10 Market Capitalization Firms in the World (End June 2011)

Ranking		Company	Country	Industry	Market Capitalization (Billion Dollars)	
End Jun 2011	End Jun 2008				End Jun 2011	End Jun 2008
1	1	Exxon Mobil	US	Energy	401	466
2	31	Apple	US	Hardware/ Electronic Devices	310	148
3	2	PetroChina	China	Energy	304	380
4	9	Ind & Com Bank of China	China	Bank	247	238
5	10	BHP Billiton	UK/ Australia	Materials	235	225
6	8	Royal Dutch Shell	Holland	Energy	225	256
7	7	Microsoft	US	Software/Services	219	256
8	4	Petroleo Brasileiro	Brazil	Energy	210	287
9	26	IBM	US	Software/Services	208	163
10	13	Chevron	US	Energy	207	205

Note 1: BHP Billiton is listed in two countries, UK and Australia.

Note 2: Classification by industry utilizes the "Global Industry Classification Standard =GICS" by Morgan Stanley Capital International and Standard & Poor's.

Prepared by Hitachi Research Institute based on data from Bloomberg L.P.

Companies with the top market capitalization in the world are Exxon Mobil (\$401 billion), followed by Apple (\$310 billion) in second place, and PetroChina (\$304 billion) in third. Apple was ranked 31st (\$148 billion) at end June 2008, but with the big hit of iPhone and iPad, total sales nearly tripled compared to 2007, while profits grew by four times, with iPhone, iPad and peripheral

product sales contributing to 46% of total sales in 2010. Its stock price also grew for nine consecutive quarters, overtaking Microsoft to become the top IT firm in the world. Meanwhile, performing well mainly in the software business, IBM jumped from the 26th place to 9th place.

4. Enterprises with Largest Growth/ Decline in Market Capitalization

If we compare the top 50 companies with the largest market capitalization as at end June 2011 with their performance at end June 2008, the top 10 companies with the largest growth are occupied by those in Korea, US, and China (Table 2). Particularly noteworthy is Korea-based Kia Motors and Hyundai Mobis, both members of the Hyundai Motor Group, were ranked at the top and fourth place. In addition to a reasonable price setting, this industrial group has improved the quality and design of their products in recent years, which helped to increase sales to 5.73 million units in 2010, occupying fifth place after the Renault-Nissan Group (6.7 million units). While Japanese auto makers were forced to cut production temporarily due to the earthquake, Hyundai Group made an upward adjustment of its total sales in 2011 to 6.5 million units. It is also investing aggressively in emerging markets outside of Asia, with a recent launch of its Russian plant and construction of a new plant in Brazil.

Ranked second in terms of the highest growth rate is CenturyLink, a US-based local communication service provider, which acquired its competitor, Qwest, through a share exchange. In the third place is priceline.com, a provider of flight ticket and hotel reservation services through reverse auction. This company has performed well in regions such as Asia and South America, and also regularly buys back its stock.

China-based construction machinery maker, Sany Heavy Industry, is ranked in the fifth position. It was involved in the water-injection project for the Fukushima Daiichi (No. 1) Nuclear Power Plant and provided equipment for the rescue of workers at the Chile Mine Accident in 2010. Both the sales and profit of the company for 2010 tripled compared to 2007, and there are plans to be listed on Hong Kong's stock exchange after its listing in Shanghai.

On the other hand, all the top 10 companies with the largest decrease in market capitalization are based in advanced countries, with Japanese corporations occupying four spots out of ten, including Nintendo

(top), Panasonic (sixth), and Sony (seventh). The main reasons for the decline can be attributed to changes in the business environment, such as the lower demand for game consoles with enhanced functions like smartphones, and lower profitability of the TV business as a result of price competition from emerging-market enterprises.

5. Latest Adjustments in Emerging Countries and Future Prospects

As seen above, there is a prominent increase in market capitalization among enterprises that are aggressively investing and expanding their business operations in BRICs and other emerging markets. However, the latest figures (end June 2011) show that BRICs countries are experiencing a

downturn in the growth of market capitalization to almost the same level as advanced countries, suggesting the onset of a period of adjustment. This slowdown is attributable to reasons such as the tighter monetary policies of the central banks as consumer prices, including wages, continue to rise in addition to the soaring price of crude oil following growing tension in the Middle East. While there may be short-term fluctuations, economies are expected to grow in the long run. The future prospects of individual enterprises remain unclear, but it is believed that total market capitalization for BRICs enterprises will continue to grow.

Hitachi Research Institute will continue to analyze the future trends of market capitalization by exploring the stock market trends of upcoming countries, regions, and business fields.

Table 2: Top Companies with Largest Growth/Decline in Market Capitalization (End June 2011)

Ranking by Rate of Growth/Decline	Market Capitalization Ranking	Company	Country	Industry	Market Capitalization (Billion Dollars)	Vs. End Jun 2008 (Times)
1	347	Kia Motors	Korea	Automotive/Parts	23	7.52
2	395	CenturyLink	US	Communication Services	33	6.47
3	377	priceline.com	US	Retail	20	5.71
4	238	Hyundai Mobis	Korea	Automotive/Parts	53	5.26
5	458	Sany Heavy Industry	China	Capital Goods	25	4.97
6	149	Ford Motor	US	Automotive/Parts	22	4.86
7	166	Baidu	China	Software/Services	69	4.57
8	306	LG Chem	Korea	Materials	27	4.30
9	162	Tencent Holdings	China	Software/Services	64	3.59
10	351	SAIC Motor	China	Automotive/Parts	41	3.37

1	356	Nintendo	Japan	Software/Services	23	0.25
2	394	Nokia	Finland	Hardware/Electronic Devices	33	0.28
3	423	Encana	Canada	Energy	20	0.31
4	140	ArcelorMittal	Luxembourg	Materials	53	0.41
5	479	Transocean	Switzerland	Energy	25	0.42
6	313	Panasonic	Japan	Consumer Durables/Clothing	22	0.43
7	359	Sony	Japan	Consumer Durables/Clothing	69	0.45
8	445	Nippon Steel Corp.	Japan	Materials	27	0.45
9	92	Electricite de France	France	Public Services	64	0.46
10	129	E.ON	Germany	Public Services	41	0.46

Note 1: Companies with the largest growth are listed in the upper half of the table, and companies with the largest decline in the lower half.

Note 2: The top 500 companies with the highest market capitalization as at end June 2011 are compared with their performance at end June 2008. Variation is calculated based on the local currency of the respective countries.

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