
SAMSUNG ON THE BRINK

Op Ed by Dr Rory Knight



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Dr Rory Knight, is Chairman of Oxford Metrica and a member of the Board of the Templeton Foundations. He was formerly Dean of Templeton, Oxford University's business college.

Prior to that Dr Knight was the vize-direktor at the Schweizerische Nationalbank (SNB) the Swiss central bank.

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JoongAng Sunday is the Sunday edition of the leading Korean language daily newspaper JoongAng Ilbo. It is one of the three largest newspapers in South Korea. The paper also publishes an English edition, Korea JoongAng Daily, in alliance with the International New York Times.

Start spreading the news. Samsung is hovering on the threshold of the elite Top 10 of the world's wealthiest companies, putting it alongside such other technology titans as Apple and Microsoft according to market capitalisation, a new analysis by Oxford Metrica has found. This is a stunning achievement, especially in the teeth of Samsung's recent travails with its chairman, its exploding phone setback and political tension on the Korean peninsula. The company has climbed eleven places to the thirteenth spot and will no doubt soon break through the corporate ceiling into the Global Top 10.

Korea is now the only country apart from the USA and China represented in the top thirteen global places. Although a weakening Korean Won may have done something to sharpen Samsung's global competitiveness over the last five years, the fall in the currency certainly did not add to its value in US dollars (the measure on which Oxford Metrica based its analysis). It is probable that without its recent setbacks Samsung would have made it into the Top 10. This despite stiff competition from two Chinese companies, Alibaba and Tencent, which snatched two of the Top 10 slots. It is almost certain that over the next year or two Samsung will take its well deserved seat at the Top 10 table.

There are a number of factors under the company's control that could help hoist it into this elite group. Samsung's balance sheet is strong and its financial resources comfortably rival those of the Top 5 companies. Moreover, as Oxford Metrica's analysis graphically illustrates, continuing technological innovation is the prime driver of corporate value. Samsung is well placed with its considerable market capitalisation and its mountain of cash resources to maintain its investment in R&D and the acquisition of new technology. Two moves, though, are required to maintain momentum.

Firstly, while responding carefully to reasonable shareholder demands, Samsung should resist calls for major and destabilising restructuring.

Secondly, Samsung should benefit from making its shares available in the US capital market, the largest pool of funds in the world. Strikingly, Samsung is the only significant Top 100 technology company that to date has kept clear of the US markets. Samsung's shares are offered as a global depository receipt in Europe but there is no American equivalent. The absence of Samsung from the US market not only excludes many investors it sends an ambiguous signal. US investors are of course able to invest directly in Samsung, but many are excluded through its lack of an American pres-

ence. Establishing a platform in the US and thus tapping the depth of that market is likely to further reduce Samsung's cost of capital and propel it to its rightful place among the Top 10 global elite.

Oxford Metrica has been tracking the performance of the top Global 100 companies since 2012. Its latest analysis is presented in the table below which lists the Top 100 companies by rank, by US\$ market cap, by country and by percentage change since 2012. Overall, the Global 100 companies as of 1 September 2017 are worth more than \$18.8 trillion by market capitalisation- a sum greater than the total value of the NYSE, the largest stock exchange in the world.

“Technology dominates Global top 100.”

Who were the winners in this year's hit parade? Although much has changed in the Global 100 since 2012, Apple continues to maintain its stranglehold on the number one spot. The company (which last week unveiled its latest iPhone model with enhanced facial recognition and augmented, animated reality features) is now valued at a staggering \$847 billion and as such dwarfs most

national economies. Thanks to the cumulative outcome of a compound annual growth rate of around 10%, its value has grown by an amazing 71% since 2012 (well above the average rate of 60% for the whole Global 100 group). Apple is now possibly on the brink of punching through the \$1 trillion barrier by the end of 2018 - the very first company in the world to be able to straddle that particular Everest.

Technology companies, as already pointed out, now dominate the Global 100, keeping a firm grip on eight of the Top 10 positions. The 'Gang of Five' (Apple, Alphabet, Microsoft, Facebook and Amazon) together hold the top five places and are collectively valued at an astounding \$3 trillion. To put this in perspective, it should be remembered that only four countries in the world have an annual GDP above that figure. Facebook and Amazon have each jumped more than forty places in the last five years. Two other new technology company entrants in the Global 100 are the Chinese firms Alibaba and Tencent, both of which have shot into the Top 10 respectively at seventh and eighth positions, thanks to recent IPOs. Taiwan Semiconductor (TSMC) is another notable technology winner, having leapt forty places in the last five years to come in at the 38th position.

The overriding dominance in value of the technology giants has serious implications in terms of both investment and corporate governance. This unprecedented value allocated to them provides considerable competitive advantage to these firms handing them an unparalleled ability to expand through acquisition. It is very likely that behind closed doors they are eyeing up the now convalescent banking sector (see below). In addition, many of these firms have unusually asymmetrical voting rights structures which secure direct control by management at the expense of shareholders. Questions about competitiveness and anti-trust interventions are bound to surface.

Who were the losers? Twenty-eight participants in the Global 100 in 2012 dropped out altogether. The stand-out

sector that lost relative - and in some cases - absolute value, is oil and gas, reflecting the fall in oil prices and rise of renewables. Seven of the twelve largest losers were in the oil and gas and commodities field, fourteen of such companies disappearing altogether from the Global 100. Although Exxon Mobil managed to cling on to a place in the Top 10, it fell eight places to the tenth spot, losing 15% of its nominal value in the process. BP plunged a spectacular thirty-eight places to sixty-eighth position. Telecommunication companies fared little better, losing five companies out of the Global 100. Three auto manufacturers also dropped out of the Global 100, among them Volkswagen, reflecting the damage to its reputation and balance sheet resulting from the emissions scandal. The other two were the Japanese auto giants Mitsubishi and Honda - sending a warning signal to Japan if possibly an encouraging one to regional rivals in Asia such as Korea.

Other sectors did better. Alongside the dominance of technology companies already noted another significant trend in the Global 100 was the resurgence of financial institutions in the aftermath of the crash of 2008 - clear evidence of a real if somewhat belated recovery. Banks and insurance companies now occupy twenty-two places in the top 100 compared to only fifteen five years ago. Bank of America and Visa have both climbed more than fifty places to achieve sixteenth and eighteenth positions respectively. Other leading banks that have improved their position include Citigroup and JP Morgan Chase, the latter now occupying eleventh place, a little above that of Samsung.

Taking a global view, the countries that gained most ground were the USA - talk of American decline notwithstanding - and China. The US still dominates the Global 100 with fifty-four companies, up from forty-four five years ago, occupying the top six slots and eight of the Top 10 places. The main engine of US value hegemony has of course been the dominance of its already noted high tech sector, additionally fuelled by the strengthening US dollar over the last five years. China, though still a long way be-

hind America is nevertheless relentlessly nudging forward and now has twelve companies in the Global 100, up from ten five years ago. In third place is the UK with a small but by no means contemptible six companies in the Global 100 - sending perhaps a bright if tiny message to fog-bound Brexit Britain.

What of the once much-trumpeted BRICS (Brazil, Russia, India, China and South Africa) and emergent economies generally? Excluding China, the BRICS lost all five of their Global 100 slots, reflecting the poor performance of emerging markets generally and their excessive reliance on commodities. The old joke that South America is the land of tomorrow and doomed forever to stay that way seems to continue to be the case. That said, with regard to emerging economy companies, one startling new entrant in the Global 100 was the South African company Naspers, an old Afrikaaner firm that has given itself a modern make-over and successfully reinvented itself as a hi tech global internet enterprise.

Overall, the Global 100 companies squat on mountains of cash in their balance sheets - mountains that are continuously and prodigiously edging upwards, reflecting a reticence to invest on the part of these companies. In total, the cash on their balance sheets amount to more than \$6.5 trillion - up by more than a trillion since 2012. The technology companies in the Top 10 alone hold over \$500 billion in cash, the largest being the Chinese Alibaba with \$150 billion. In the case of many of the US companies these balances are held abroad to avoid domestic taxation. President Trump expressed his intention when a candidate to introduce tax reforms to facilitate the repatriation of these funds for investment back home. Such a reform might indeed prove highly beneficial to American shareholders and provide a much needed boost to investment within the USA. The build up of cash in these companies augurs poorly for the larger world economy. It is essential for world growth that these funds are productively mobilised internationally. The values attributed to these companies by global markets demand no less.

TABLE 1. Global 100

SOURCE: Oxford Metrica. Market values (\$ MM) at 1 September 2017.

Rank 2017	Company	Market Capitalisation	Change on 2012 (%)	Cash (\$ MM)	Country
1	Apple	847,924	71%	67,155	US
2	Alphabet	655,483	223%	86,333	US
3	Microsoft	568,888	128%	132,981	US
4	Facebook	500,817	382%	29,449	US
5	Amazon	471,377	379%	25,981	US
6	Berkshire Hathaway	446,690	125%	263,282	US
7	Alibaba	439,238	new entry	150,801	China
8	Tencent	395,982	new entry	15,832	China
9	Johnson & Johnson	351,993	102%	41,907	US
10	Exxon Mobil	325,240	-15%	3,657	US
11	JPMorgan Chase	324,695	151%	716,011	US
12	I & C Bank of China	302,400	33%	626,759	China
13	Samsung	268,598	82%	78,519	Korea
14	Nestle	262,133	38%	9,649	Switzerland
15	Wells Fargo	255,221	53%	286,767	US
16	Bank of America	254,818	239%	355,823	US
17	Anheuser-Busch InBev	239,623	114%	14,238	Belgium
18	Visa	237,618	207%	8,938	US
19	Procter & Gamble	235,940	35%	15,137	US
20	Wal-Mart	234,167	12%	6,867	US
21	AT&T	230,066	18%	5,788	US
22	Royal Dutch Shell	229,125	13%	22,700	Netherlands
23	Novartis	219,870	57%	8,072	Switzerland
24	China Construction Bank	219,275	33%	473,879	China
25	Roche	218,954	54%	9,452	Switzerland
26	General Electric	217,546	9%	92,442	US
27	China Mobile	216,945	2%	58,486	China
28	PetroChina	213,415	-21%	12,604	China
29	Oracle	209,482	60%	66,078	US
30	Chevron	205,883	4%	7,001	US
31	Pfizer	201,526	19%	17,850	US
32	HSBC	195,840	31%	495,419	UK
33	Verizon	195,200	66%	2,880	US
34	Coca-Cola	194,711	15%	22,201	US
35	Comcast	193,531	154%	3,301	US
36	UnitedHealth	192,358	new entry	13,275	US
37	Citigroup	187,749	142%	23,043	US
38	TSCM	186,844	157%	21,033	Taiwan
39	Toyota	182,965	39%	53,509	Japan
40	Philip Morris	182,251	26%	4,239	US
41	Bank of China	178,924	45%	450,611	China
42	Home Depot	177,517	148%	2,538	US
43	Unilever	175,845	82%	4,880	UK
44	Merck	174,223	51%	14,341	US
45	Intel	165,311	25%	17,099	US
46	PepsiCo	164,889	53%	16,125	US
47	Cisco	160,977	81%	70,492	US
48	Walt Disney	156,972	98%	4,610	US
49	Ping An Insurance	152,045	new entry	34,768	China
50	BAT	143,665	52%	2,219	UK
51	Boeing	142,912	new entry	10,029	US
52	Mastercard	142,089	new entry	8,335	US
53	IBM	134,134	-41%	8,527	US
54	LVMH	134,037	70%	4,649	France
55	TOTAL	130,390	26%	32,639	France
56	Amgen	130,283	new entry	38,085	US
57	McDonald's	129,494	42%	1,223	US
58	SAP	129,364	75%	4,625	Germany
59	Sanofi	124,490	36%	12,227	France
60	3M	121,659	108%	2,678	US
61	Altria	121,377	89%	4,569	US

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62	AbbVie	120,545	new entry	6,423	US
63	Charter Comms.	119,828	new entry	1,535	US
64	Novo Nordisk	119,050	51%	3,303	Denmark
65	L'Oreal	118,629	67%	2,072	France
66	Industria de Diseno Tex	118,032	new entry	7,301	Spain
67	China Life Insurance	115,012	52%	8,569	China
68	BP	114,348	-4%	30,841	UK
69	Siemens	112,211	47%	15,461	Germany
70	BHP Billiton	111,512	-30%	14,153	Australia
71	Celgene	109,111	new entry	7,970	US
72	RBC	108,645	48%	184,833	Canada
73	Medtronic	108,543	new entry	13,708	Ireland
74	Gilead	108,300	new entry	11,895	US
75	China Petro & Chem	107,019	16%	18,212	China
76	Bayer	106,617	new entry	8,913	Germany
77	Honeywell	105,126	new entry	9,874	US
78	Banco Santander	104,555	new entry	181,722	Spain
79	Commonwealth Bank	104,174	33%	44,535	Australia
80	Broadcom	103,608	new entry	3,097	US
81	NVIDIA	102,822	new entry	6,798	US
82	China Merchants Bank	101,407	new entry	150,749	China
83	Toronto-Dominion Bnk	100,589	46%	115,921	Canada
84	Naspers	99,634	new entry	310	South Africa
85	UPS	99,427	39%	4,567	US
86	Bristol-Myers Squibb	98,207	new entry	6,350	US
87	Kraft Heinz	98,020	44%	4,204	US
88	GlaxoSmithKline	97,759	-13%	6,464	UK
89	Allianz	96,896	new entry	17,162	Germany
90	BNP Paribas	95,614	new entry	384,602	France
91	United Technologies	94,527	41%	7,157	US
92	AIA	93,362	new entry	210	China
93	Goldman Sachs	91,486	new entry	121,711	US
94	Priceline	91,299	new entry	4,300	US
95	BASF	90,091	36%	2,268	Germany
96	Rio Tinto	89,697	1%	11,067	UK
97	SoftBank	89,351	new entry	26,478	Japan
98	Eli Lilly	89,114	new entry	6,039	US
99	Abbott Laboratories	88,801	-9%	18,775	US
100	Schlumberger	88,145	2%	9,257	US
	Total	18,814,091	60%	6,573,414	

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