

The Stock Exchange Corner

Market Capitalization

by George Edwards

What is market capitalization? Market capitalization, sometimes referred to as “market cap”, is the aggregate market value of a company’s common shares that it has issued. It is calculated by multiplying the shares outstanding (issued to shareholders) by the current market price.

Example:

If a company has issued 100,000 shares and the current market price is \$15, then its market capitalization is equal to 100,000 multiplied by \$15 = \$1,500,000.

It should be noted that the market capitalization is based on the number of shares actually issued and not the number of shares that the company is authorized to issue, which may be a larger figure e.g.

No. of shares authorized150,000
No. of shares issued.....100,000
Market capitalization will be calculated as above.

Thus it can be seen that the market capitalization of a company represents the total value of its shares currently available on the market. This figure can be greater than its book value capital.

One of the measures that is often used to assess the success or failure of a company is the size and growth of its market capitalization. This may change, however, for reasons unrelated to its performance. From the example above, we can see that if that company decided to issue the remaining 50,000 shares, then its market capitalization would increase by \$750,000 (50,000 x \$15). Conversely, if it decided to buy back some of its shares, then its market capitalization would decrease.

The total market capitalization represents the sum total of the market values of all the companies traded on the stock exchange. Continuous growth in market capitalization may be considered as an indicator that there is positive development in the stock market.

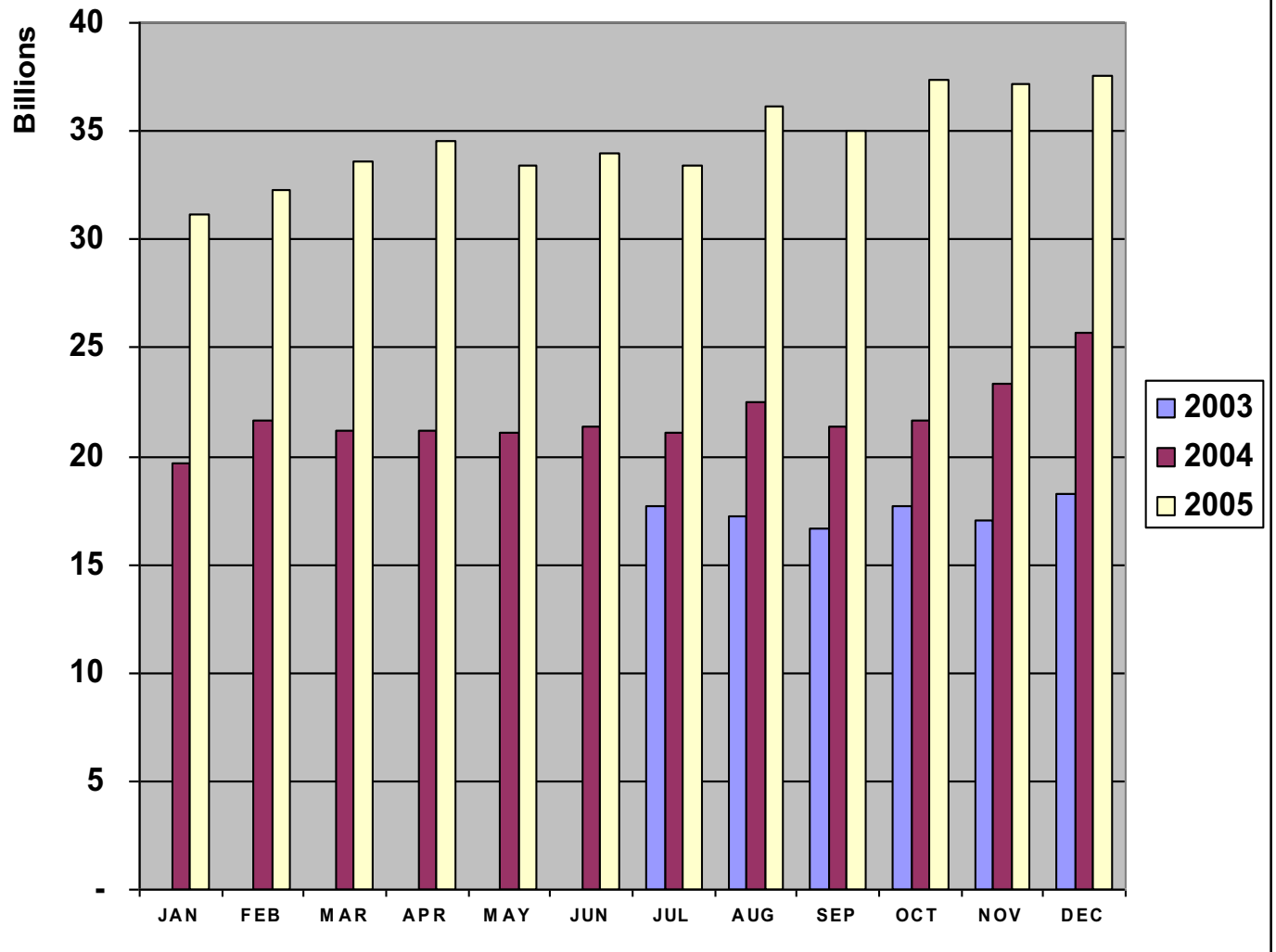
Growth in total market capitalization may come from:

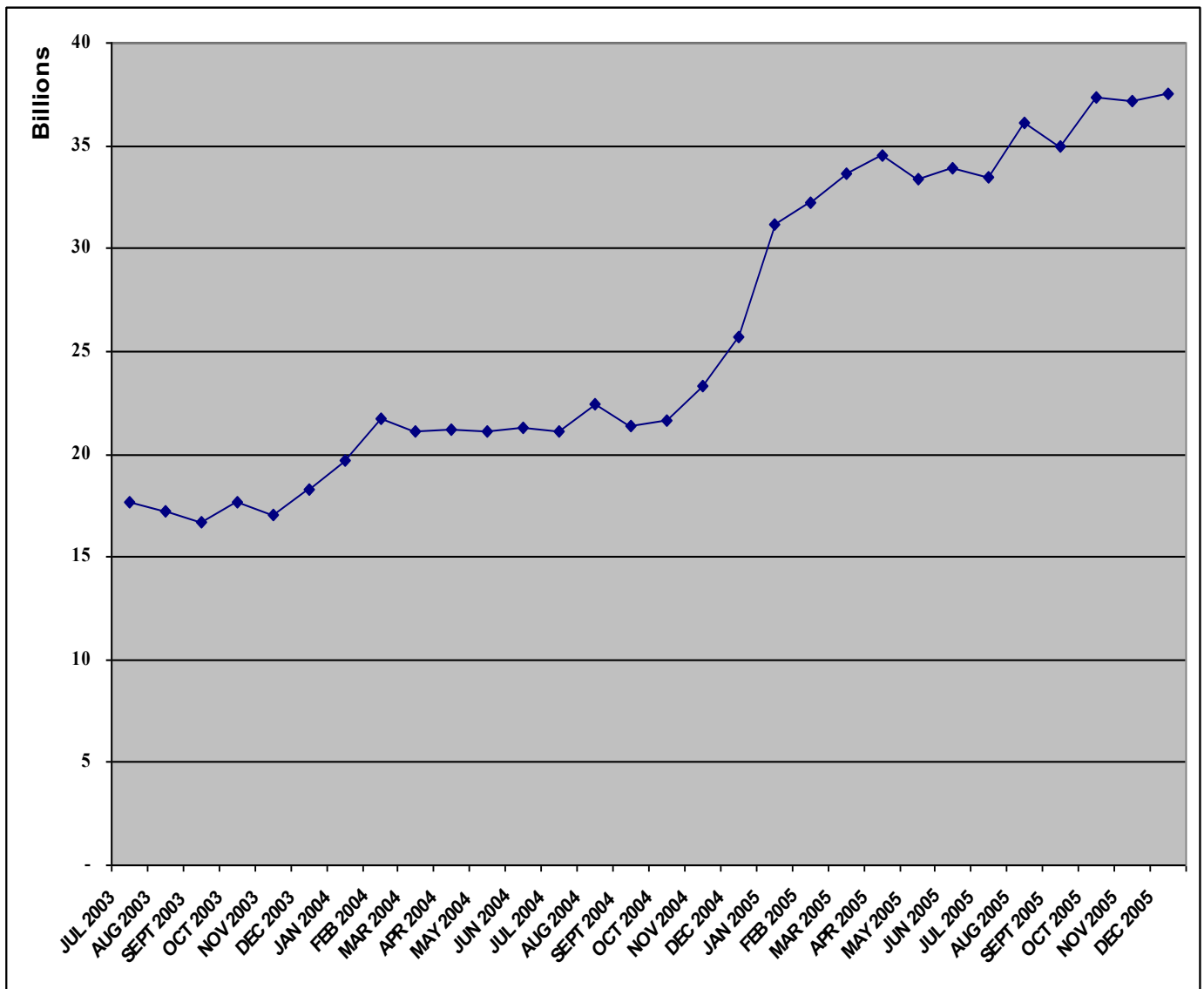
- a) Privatization of State-Owned Enterprises by selling shares to the public.
- b) Private companies may decide to sell shares to the public.
- c) Increase in value of shares already on the market due to investors’ confidence in companies because of increased dividends, good management and corporate governance and strong regulation designed to protect investors.
- d) Companies whose shares are already traded may issue more shares through rights issues and new offerings.

Below are figures and graphs of the Guyana market from its inception in July 2003 to December 2005.

Market Capitalization

MONTH	2003	2004	2005
JANUARY		19,662,614,163	31,195,812,325
FEBRUARY		21,679,270,363	32,271,198,365
MARCH		21,144,926,563	33,631,294,025
APRIL		21,194,926,563	34,554,634,025
MAY		21,115,249,841	33,414,294,025
JUNE		21,323,046,541	33,936,634,025
JULY	17,659,406,300	21,112,874,641	33,443,034,025
AUGUST	17,210,991,300	22,456,135,631	36,136,683,645
SEPTEMBER	16,687,199,400	21,333,976,367	35,003,743,645
OCTOBER	17,665,332,755	21,650,963,569	37,389,727,045
NOVEMBER	17,068,720,255	23,308,614,711	37,197,083,645
DECEMBER	18,296,920,255	25,678,393,211	37,515,083,645





Next week: Buying and Selling Shares

N.B. – More information may be accessed on our website: www.gasci.com