



How Big Are Canada's Biggest Companies?

Description

After **Apple Inc.** ([NASDAQ:AAPL](#)) hit the [US\\$1 trillion dollar mark](#) of market capitalization last week, many investors stopped for a brief moment to ask the question: "What does this really mean for the greater market?" In spite of many coming up empty, the reality is that this event translates to a lot more potential for Canadian investors as the ceiling has been substantially raised on market valuations.

Before we can determine just how to profit from this situation, it's important to understand market capitalization and what leads to a large one. The number of shares outstanding multiplied by the share price is the total worth of the company; this is called the market capitalization. What leads to a company being worth a substantial amount of money is that it turns out a lot of profit. In the case of Apple Inc., the company made a net profit of US\$11.5 billion for the past quarter alone.

In Canada, the largest company by market capitalization (as you could probably guess) is none other than **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), which has [held the title](#) on and off for at least a decade. In spite of being dethroned by names in the pharmaceutical and technology space for short periods, investors who have stuck with this name have been handsomely rewarded. At a current share price of \$101, it's easy to understand what has made this company so profitable.

As the bank operates in an industry composed of only five competitors with high barriers to entry and even higher barriers to growth, the company has enjoyed the benefits of pricing power over many consumers. With only few suppliers (competitors) and many clients, the power rests with the provider, as no one wants to change banks.

At current levels, investors will be receiving a dividend yield of 3.7% and a small piece of a growing asset. The caveat, however, is that the total shares outstanding are on the decline as the company has undertaken a shares buyback — another way to return money to shareholders. As profits continue to roll in, the company will have more excess cash to send back to shareholders through both dividends and share buybacks.

There are two differences between Apple Inc. and Royal Bank of Canada. The first is Royal Bank of Canada's proven business model of many decades; Apple, however, could come out of nowhere. Like

a giant ship, “full steam ahead” can come to a quick stop if the machine runs out of fuel or a better mousetrap is invented.

The second difference between the two companies lies in the total size. As Canada’s largest bank has taken many years to attain its size of \$147 billion, Apple’s efforts, at close to US\$1 trillion, are incredible. The caveat, however, is that there remains a lot of room for growth in Canada’s banks, while Apple Inc. will have to prove itself yet again.

CATEGORY

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2. NYSE:RY (Royal Bank of Canada)
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Author

ryangoldsman

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