

# The Alberta Capital Market: A Comparative Overview

May 2006

(an update of the March 2004 Report)



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*Prepared by the Office of the General Counsel*

## INTRODUCTION

Approximately three years ago, the Alberta Securities Commission (ASC) undertook a review of Alberta's capital market. This research project, the Alberta Capital Market Project, was undertaken to focus and enhance the regulatory efforts of the ASC through the acquisition of better insights into the capital market regulated by the ASC. The information gathered has been used to help identify priorities for the ASC and provide background information for other projects and rules, including those relating to continuous disclosure, corporate governance, prospectuses and capital raising in the exempt market.

The first iteration of this report, "The Alberta Capital Market: A Comparative Overview" was released in March 2004<sup>1</sup> (the "2004 Report"). This update to the 2004 Report consists of an overview of companies listed on the Toronto Stock Exchange (TSX) - Canada's senior equities market - and the TSX Venture Exchange (TSXV) - Canada's junior equities market. The report reviews the number, size (by market capital) and industry classifications of public companies<sup>2</sup> with publicly listed securities on these two exchanges<sup>3</sup>. It also reviews Alberta's market relative to the markets in British Columbia, Ontario and Québec. The report focuses on these four provinces as public companies based in these jurisdictions represent 93% of all public companies listed on the two exchanges (2004 Report - 92%) and 86% of the aggregate market capital of companies listed on those exchanges (2004 Report - 83%).

## EXECUTIVE SUMMARY

Through the examination of information respecting public companies listed on the TSX and TSXV, the following findings were made and conclusions drawn:

- The aggregate market capital of companies listed on the TSX and TSXV has grown by 60% (from \$1.17 to \$ 1.88 trillion) since the 2004 Report. The aggregate market capital of Alberta based companies listed on the two exchanges has grown 135% (from \$210 to \$494 billion) since the 2004 Report. Accordingly, 40% of the growth in aggregate market capital since the 2004 Report is attributable to the growth associated with Alberta based companies.
- Canadian based companies represent approximately 96% of the companies listed on the two exchanges (unchanged from 2004 Report) and 92% of the aggregate market capital of public companies (2004 Report - 88.5%). Foreign companies do not represent a significant component of TSX or TSXV listings and there is no evident trend to the contrary.
- The largest provincial markets (based on aggregate market capital of companies with head offices in the respective provinces) are Ontario at 42% (down 3% from the 2004 Report), Alberta at 26% (up 8% from the 2004 Report), Québec at 12% (down 2% from the 2004 Report), and British Columbia at 6% (up 1% from the 2004 Report).
- Alberta's market has a significant position within the Canadian capital markets. The size of the Alberta market would suggest that it is appropriate for the ASC to take an active role in the development of securities policy in Canada. Specifically:

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<sup>1</sup> The 2004 Report was based on TSX data as at August 31, 2003 and TSXV data as at September 30, 2003.

<sup>2</sup> In this report, the term "company" means company, trust or partnership. The analysis in the report is limited to companies listed on the TSX or TSXV.

<sup>3</sup> This update is based on TSX and TSXV data as at December 31, 2005.

- Alberta's capital market is second only to Ontario's in terms of aggregate public company market capital, and more than double that of Québec which is the next most significant jurisdiction; and
  - Alberta has the third largest number of publicly listed companies after Ontario and British Columbia. Alberta is second only to Ontario with respect to the number of TSX listed companies and third after both British Columbia and Ontario with respect to TSXV listed companies (2004 Report - Alberta was second after BC on the TSXV).
- Alberta's public equities market is a tiered market with a relatively even distribution of small, medium and large companies. Although roughly 57% of Alberta based public companies are listed on the TSXV (2004 Report - 66%), the aggregate market capital of TSX listed companies represents 98% of the total market capital of Alberta based public companies (unchanged from 2004 Report).
  - Canada's public equities market is also a tiered market. Regard to this tiered market continues to be appropriate in the development of securities regulation in Canada.
  - Based on aggregate market capital, the oil & gas industry is the most significant industry in Canada (2004 Report - third after financial services and industrial/manufacturing); and it is by far the most significant industry in Alberta, almost seven times bigger than the utilities & pipelines industry, the next largest industry in Alberta. Forty-four percent of Alberta based public companies are engaged in oil & gas (2004 Report - 41%). Further, oil & gas public companies represent 76% of the aggregate market capital in Alberta (2004 Report - 63%). In contrast, 12% of all public companies listed in Canada (unchanged from 2004 Report), representing 29% of the aggregate market capital (2004 Report - 20%), are engaged in the oil & gas industry.
  - Based on numbers of public companies, the mining industry is quite significant within Canada, representing 34% of the number of public companies (2004 Report 32%), although only 11% of the aggregate market capital (2004 Report - 10%). In comparison, the mining industry is less significant in Alberta, representing only 11% of Alberta based public companies and 2% of the aggregate market capital (unchanged from the 2004 Report).
  - Alberta's public equities market is quite distinct from other provincial markets. In fact, each of the provincial markets is distinct from the others. For example:
    - Although Alberta and British Columbia are both known for having strong junior markets, unlike British Columbia, Alberta also has a strong senior market. The aggregate market capital of Alberta based public companies is more than four times larger than that of British Columbia based public companies (2004 Report - three times larger).
    - Alberta and British Columbia are also quite different with respect to the types of public companies located in the two provinces. The principal industry classifications of Alberta's public companies are oil & gas, followed by industrial. In comparison, British Columbia's principal industries are mining and technology. Those latter industries, combined, represent only 3% of the aggregate market capital of Alberta public companies (2004 Report 2%).

- With 12% of the aggregate market capital of public companies (2004 Report - 14%), Québec has a lower aggregate market capital than Alberta by more than half. The average market capital of Québec public companies is lower than Alberta public companies as well - \$583 million in Québec vs. \$677 million in Alberta (2004 Report - \$494 million in Québec vs. \$293 million in Alberta). Although both Québec and Alberta public companies have a significant representation in the industrial category, the oil and gas industry has virtually no representation in Québec. Instead, Québec has a significant number of public companies engaged in the mining sector.
- Ontario and Alberta have a similar number of junior public companies listed on the TSXV - 444 and 419, respectively (2004 Report - 437 and 472, respectively); however, Ontario has more very large public companies listed on the TSX than does Alberta - 718 and 301, respectively (2004 Report - 582 and 245, respectively) and consequently, a larger aggregate market capital than Alberta. Based on aggregate market capital, the most significant industries among Ontario public companies are financial services at 49% and industrial at 16% (2004 Report - 44% and 19%, respectively). Alberta's primary industry, oil & gas, forms a comparatively small part of Ontario's aggregate capital market at only 6% (2004 Report - 4%).
- Income trusts represent almost 10% of the aggregate market capital in Canada and 6% of the listings on the TSX and TSXV. The aggregate market capital associated with income trusts has grown 180% and the number of income trusts has grown by 84% since the 2004 Report. Income trusts represent 23% of the aggregate market capital of Alberta based companies and 12% of the total number of Alberta based companies. Since the 2004 Report, with respect to Alberta based income trusts, aggregate market capital has increased by 256%, while the number of trusts has increased by 87%.

## **METHODOLOGY**

All of the information presented in this part of the Alberta Capital Market Project has been derived from comprehensive spreadsheets provided by TSX Group Inc.<sup>4</sup> The spreadsheets contain key information respecting every public company listed on either of the two exchanges.

The TSXV typically calculates market capitalization by multiplying outstanding shares by market price but then excludes escrowed shares from the total. The TSX does not exclude escrowed shares. To facilitate comparison, we have included escrowed shares in calculating the market capitalization for TSXV listed companies. Accordingly, the market capital figures we have reported for the TSXV likely will be somewhat larger than is typically reported by that exchange.

The compiled information does not take into account reporting issuers that are not listed on an exchange. In addition, companies that were halted or suspended from trading on either of the exchanges are included in the market capital calculations as \$0 unless the relevant stock traded at some time during 2005, in which case the market cap calculation is based on the last closing price in 2005.

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<sup>4</sup> TSX Group Inc. has not reviewed or endorsed this report.

## FINDINGS

### *International Representation in the Canadian Capital Market*

**Table A** below provides an indication of the degree to which international public companies are represented in the Canadian capital market. Canadian-based public companies represent approximately 92% (2004 Report - 88.5%) of the aggregate \$1.87 trillion of the market capital (2004 Report \$1.17 trillion) and 96% of the head offices of the 3,753 public companies listed on the TSX and TSXV (unchanged from 2004 Report). Foreign public companies represent only 8% of the aggregate capital market on the two exchanges (2004 Report - 11.5%), with the United States and United Kingdom having the largest representation at 6% and 2%, respectively (2004 Report - 6% and 5%).

Country	Number of Public Companies	Total Market Capital (\$)
Australia	9	1,085,497,593
Brazil	1	31,888,252
Canada	3,616	1,717,484,514,195
Caribbean	7	567,089,337
China	2	21,619,933
New Zealand	1	47,599,551
Norway	1	387,996,946
Portugal	1	2,820,747
Singapore	1	0

Country	Number of Public Companies	Total Market Capital (\$)
South Africa	1	303,571,111
Spain	1	255,587,480
Sweden	1	2,653,680,340
Switzerland	1	101,760,884
Taiwan	1	10,305,739
Tanzania	1	8,843,535
UK	13	111,921,313,035
USA	95	32,492,147,057
<b>Total</b>	<b>3,753</b>	<b>1,867,376,235,735</b>

Table A

The following **chart 1** illustrates the comparative distribution of market capital attributed to foreign public companies on the TSX and TSXV. Virtually all foreign market capital (99%) is found at the TSX level (unchanged from 2004 Report).

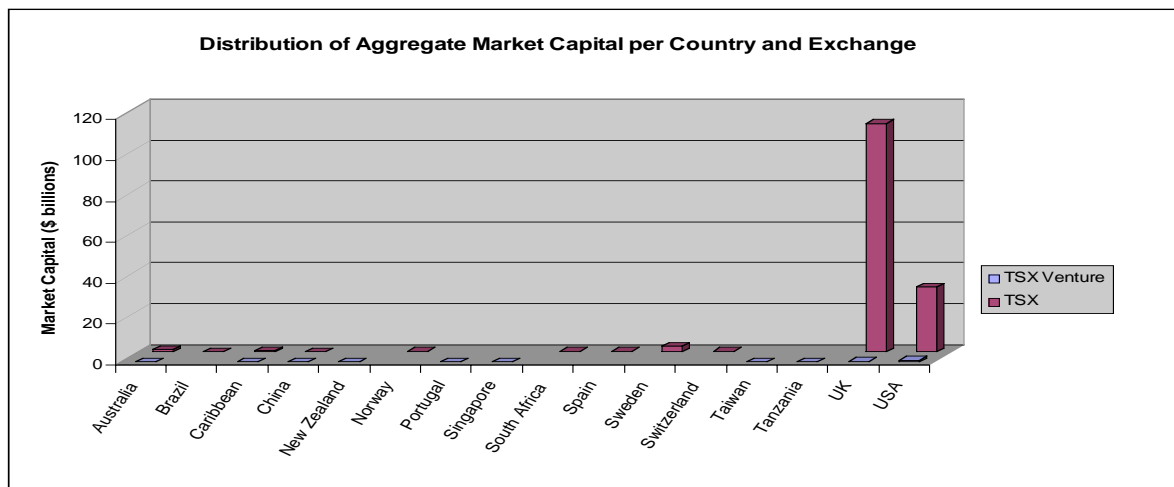


Chart 1

### ***Provincial Representation in the Canadian Capital Market***

The distribution of market capital represented by provincial markets is illustrated in **chart 2**. Ontario has the largest aggregate market capital at \$790 billion or 42% (2004 Report - \$531 billion or 45%) followed by Alberta at \$494 billion or 26% (2004 Report - \$210 billion or 18%) and Québec at \$216 billion or 12% (2004 Report - \$167 billion or 14%). The aggregate market capital in British Columbia is \$116 billion or 6% (2004 Report - \$64 billion or 5%). Together, these four provinces represent 86% of the aggregate market capital in Canada (2004 Report 83%).

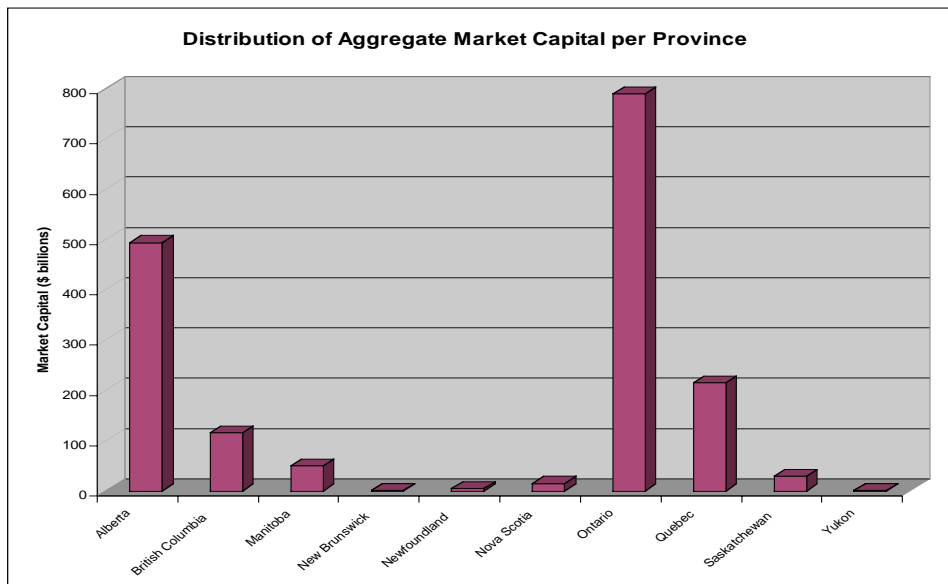


Chart 2

**Chart 3** illustrates that these four provinces are also home to 93% or 3,478 of the total 3,753 public companies listed on the two exchanges (2004 Report - 92%, 3,339 and 3,611, respectively).

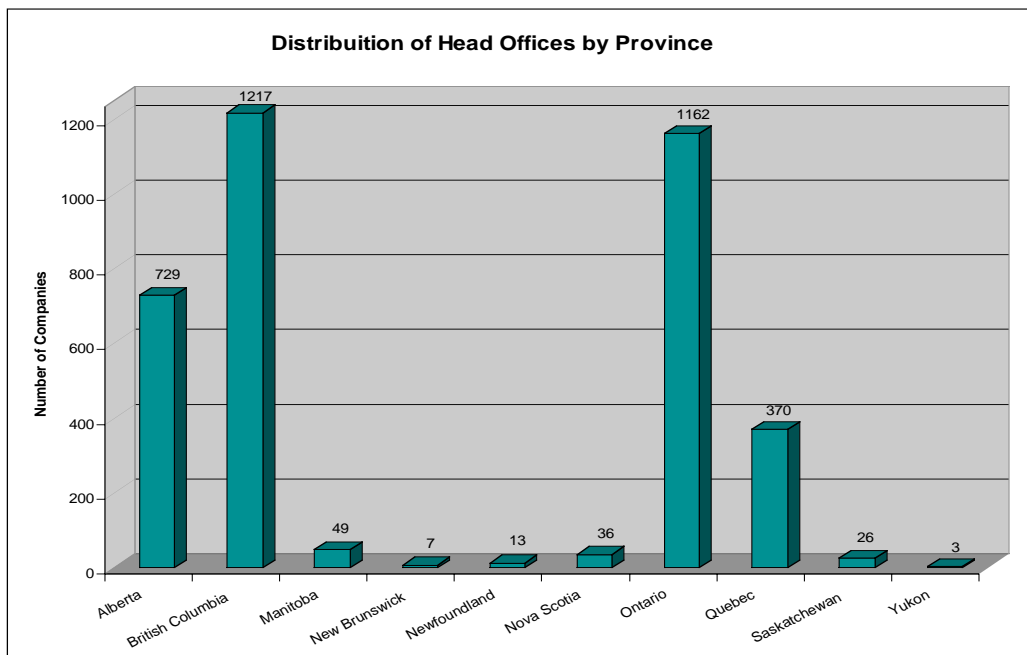


Chart 3

The comparative representation of public companies on the TSX and TSXV in each of Alberta, British Columbia, Ontario and Québec is demonstrated in **chart 4**. Alberta has the second largest number of companies (20%) listed on the TSX following Ontario (47%) and the third largest number of companies (19%) listed on the TSXV following BC (46%) and Ontario (20%). In total, Alberta based companies represent 19% of the listings on the two exchanges, with BC at 32%, Ontario at 31% and Québec at 10% (2004 Report - AB: 20%, BC: 35%, ON: 28% and PQ: 9%).

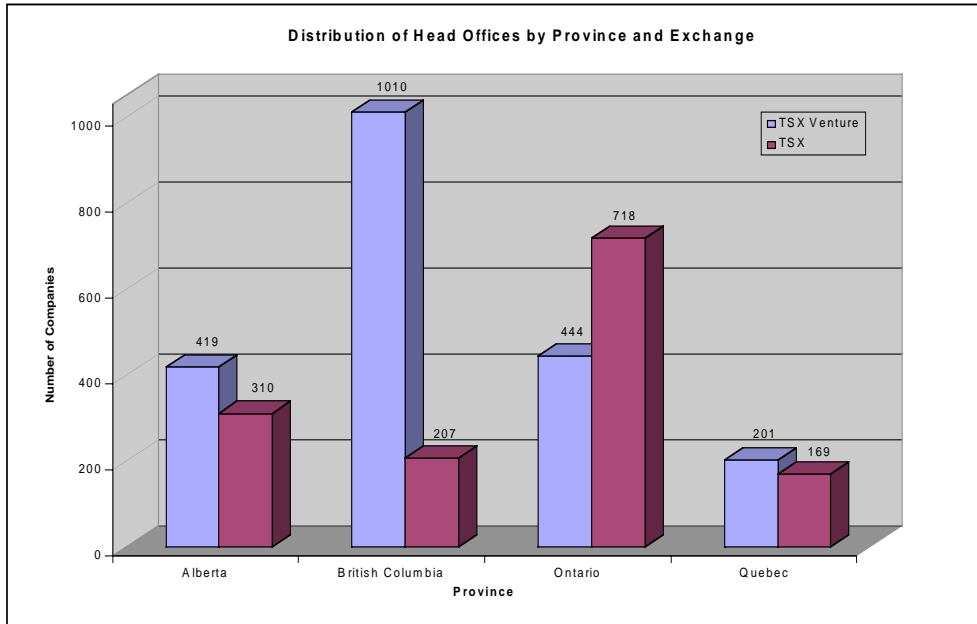


Chart 4

Viewing **chart 4** and **chart 5** together shows that out of the four provinces, British Columbia has the largest number of head offices and yet the smallest aggregate market capital. Although Alberta has less than two thirds the number of head offices as British Columbia, the aggregate market capital of those Alberta public companies is more than four times larger than that of British Columbia companies (2004 Report - AB was three times larger than BC), placing Alberta second in Canada behind Ontario for aggregate market capital.

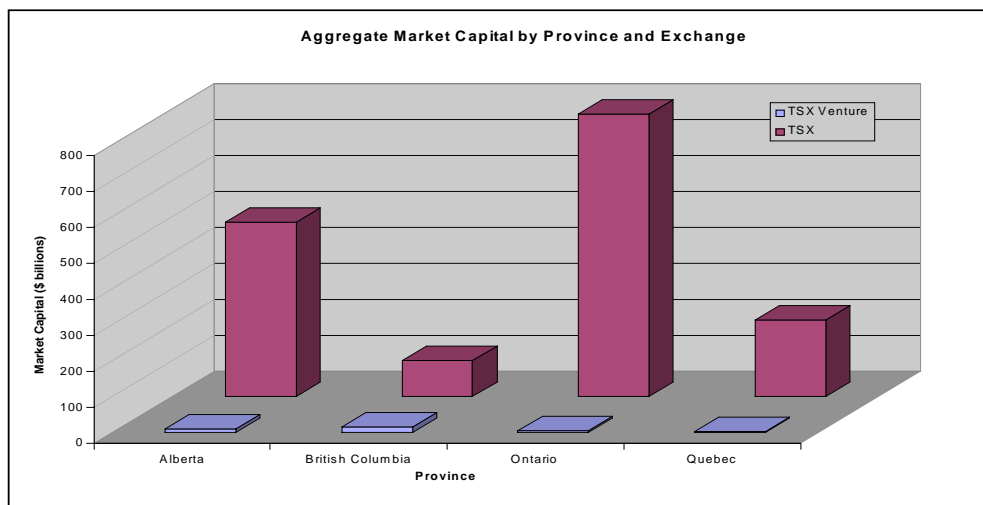


Chart 5



Based on market capital, **chart 6** illustrates that Alberta and Ontario have nearly identical representation on the TSXV. Further, Alberta's representation on the TSX shows the ratio of larger companies to small and mid-sized companies being much larger (20:1) than in Ontario (6:1). Chart 6 also shows that the capital market structure (i.e., the representation of different sizes of public companies) on the two exchanges is quite different as between Alberta and British Columbia. British Columbia has 522 companies listed on the TSXV that have market capital of less than \$5 million (2004 Report - 729). Alberta has 169 companies in that category (2004 Report - 301). Conversely, Alberta has 295 companies listed on the TSX, each with market capital over \$25 million (2004 Report - 201), whereas British Columbia has 162 public companies in that category (2004 Report - 114).

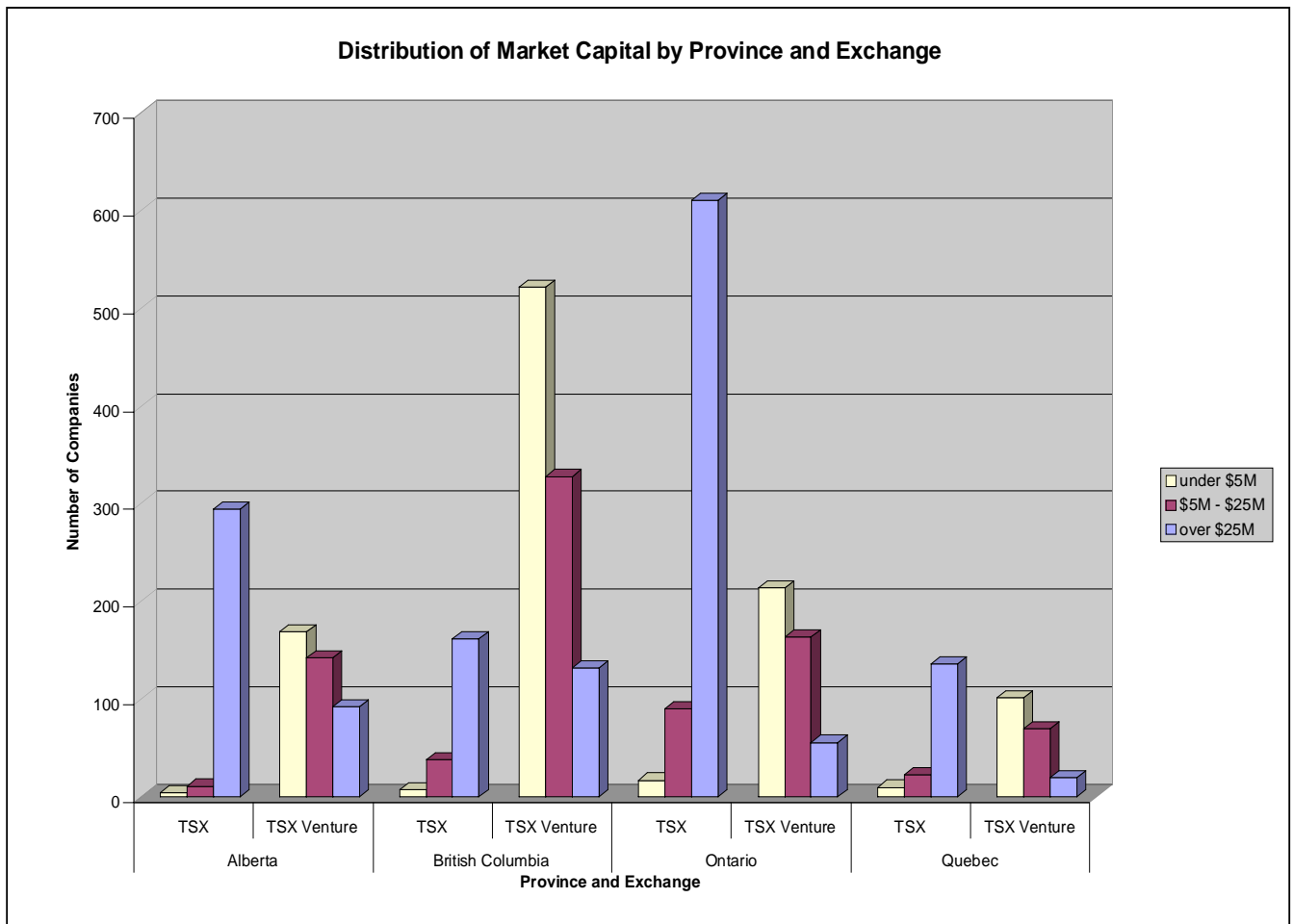


Chart 6

**Chart 6** and **chart 7** indicate that Alberta is second only to Ontario with respect to the number of public companies with market capital over \$25 million - 387 and 643, respectively (2004 Report - 239 and 465, respectively). The majority, 74%, of British Columbia's capital market is made up of companies with less than \$25 million in market capital (2004 Report - 86%). Companies with market capital of less than \$25 million represent 45% of Alberta's capital market, 42% of Ontario's capital market and 55% of Québec's capital market (2004 Report: AB - 65%, ON - 53% and PQ - 58%).

The mid ranges of market capital have relatively equal representation in Alberta's capital market, with public companies in the over \$100 million range having the highest representation at 35% (2004 Report - 19%) and the under \$1 million range having the lowest representation at 15% (2004 Report - 18%). This can be contrasted with British Columbia which has roughly the same number of public companies in the under \$1 million range as it has in the over \$100 million range, both at roughly 10% (2004 Report - 5% and 25%, respectively).

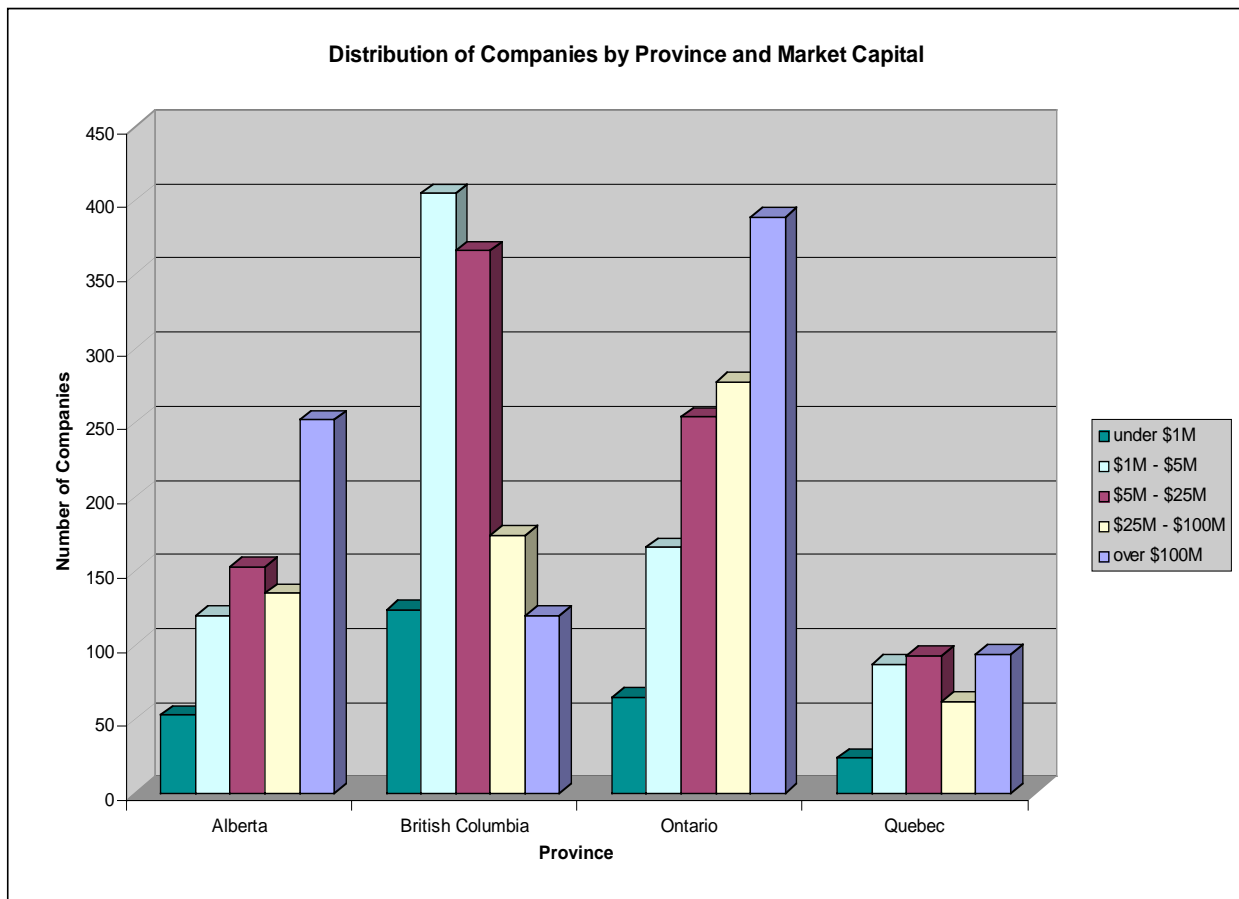


Chart 7

## Major Industries in the Canadian Capital Market

Based on aggregate market capital and number of companies, the Canadian capital market is primarily represented by five major industrial groups: oil & gas; financial services; industrial; mining; and media and business services. Also significant based on market capital alone is the utilities & pipelines industry. **Chart 8** illustrates the relative percentages of public companies engaged in each industry as compared with the percentage of market capital associated with each industry. Based on market capital, the most significant industries are oil & gas, financial services and industrial, in that order (2004 Report - financial services, industrial and oil & gas). In contrast, based on number of public companies, the most significant industries are mining, industrial and oil & gas (2004 Report - mining, industrial and technology). The financial services industry ranks fourth and technology ranks fifth in number of public companies (2004 Report - oil & gas, fourth and financial services, fifth).

Note that of the six major industries, mining companies tend to be significantly smaller than those engaged in financial services, communications, oil & gas and utilities & pipelines. For example, **chart 8** indicates that mining companies represent 34% of all public companies in Canada, but only 11% of the market capital (2004 Report - 32% and 10%, respectively). Conversely, oil & gas companies while representing only 12% of the public companies make up 29% of the aggregate Canadian market capital (2004 Report - 12% and 20%, respectively).

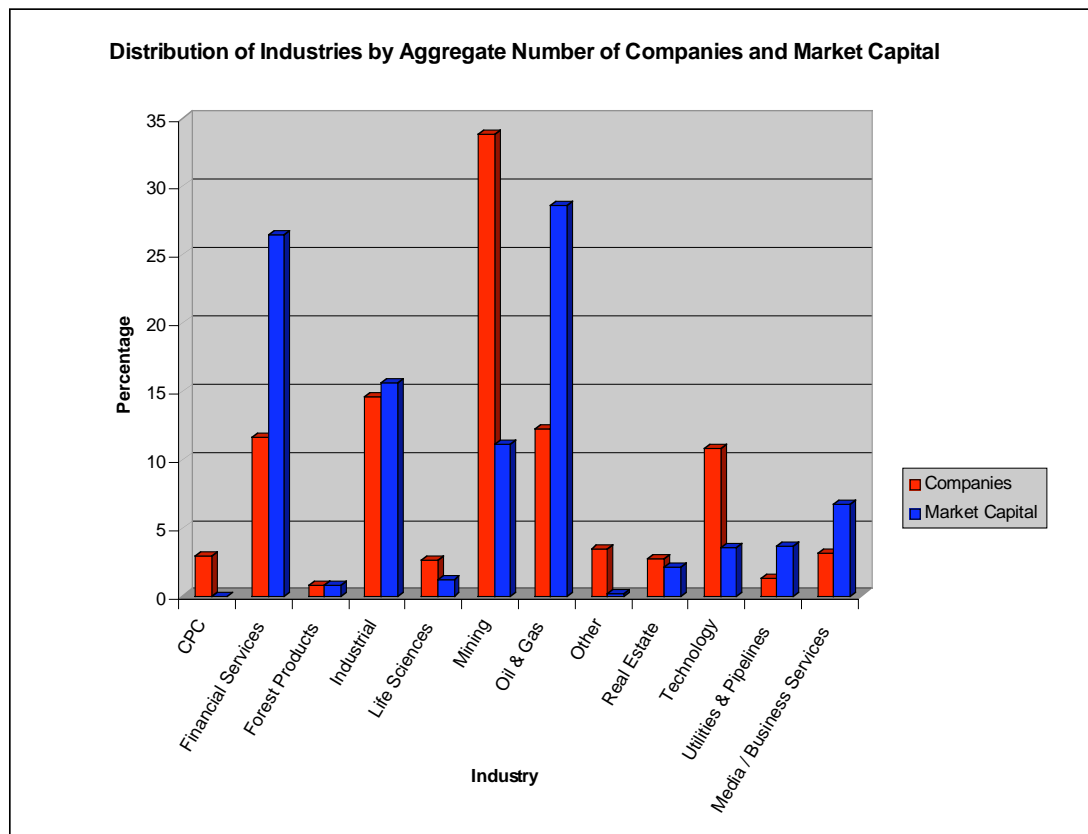


Chart 8

As illustrated in **chart 9** and further detailed in **chart 10**, 72% of the public companies engaged in the mining industry are small to mid-sized, with under \$25 million in market capital (2004 Report - 84%). In contrast, 58% of the companies in the oil & gas industry have over \$25 million in market capital with 61% of those companies in the over \$100 million class (2004 Report - 37% and 54%, respectively).

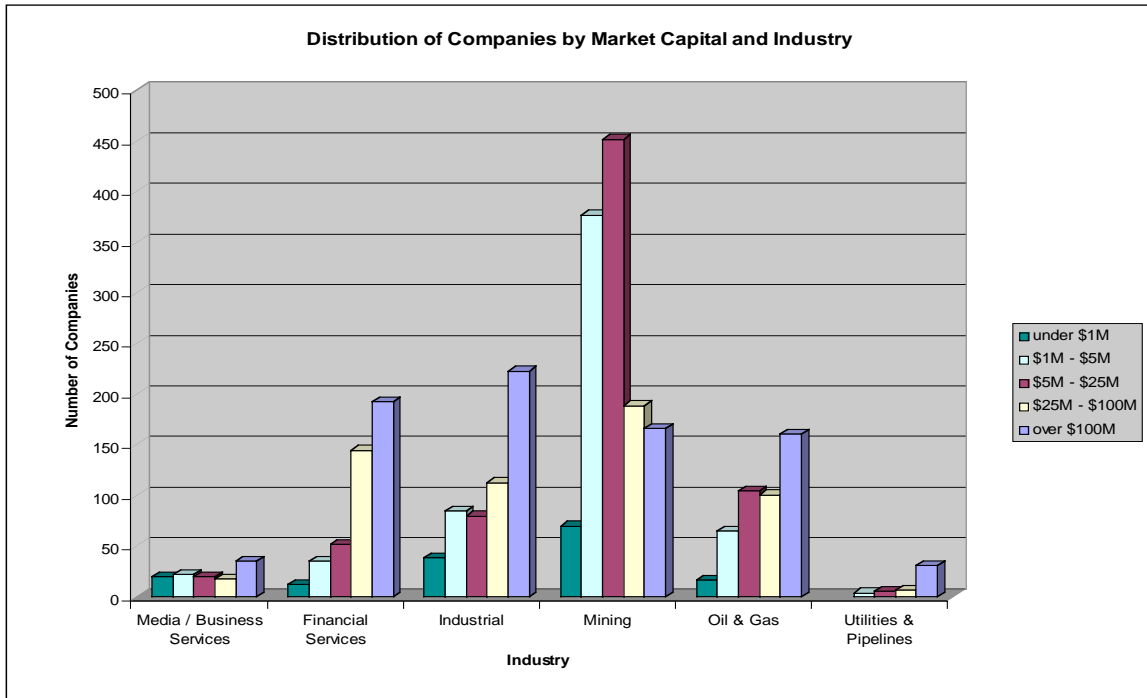


Chart 9

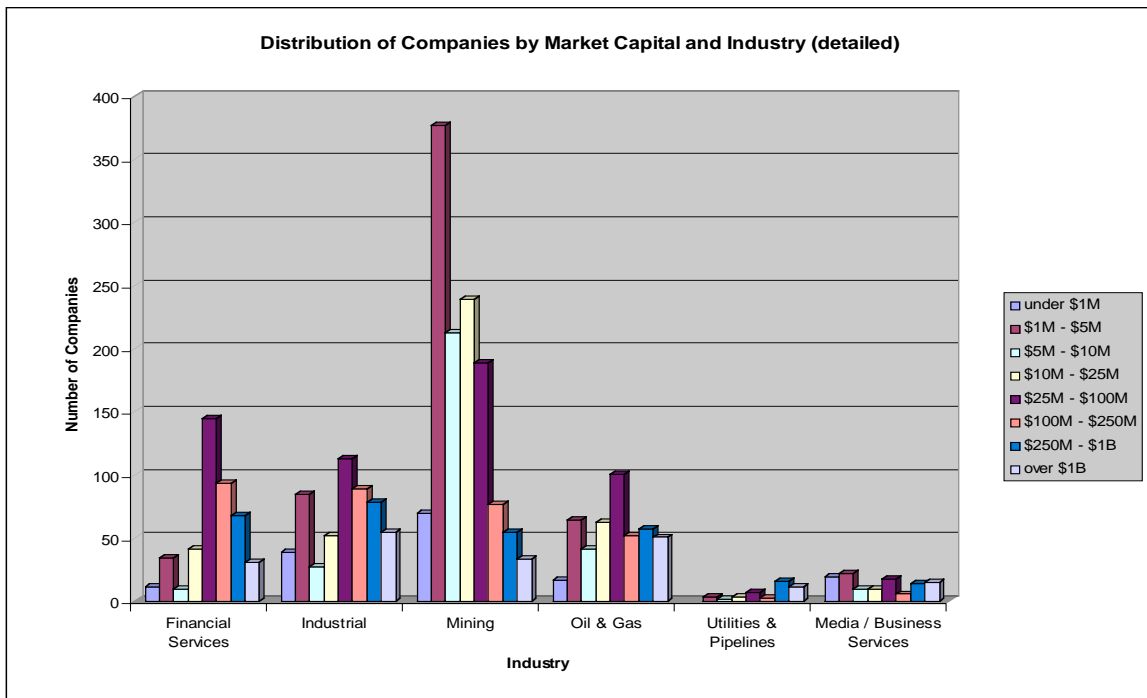


Chart 10

**Chart 11** provides a closer look at the distribution of the major industries in the four major Canadian capital markets. The primary industries in each of the jurisdictions are: Alberta - oil & gas followed by industrial; British Columbia - mining followed by industrial and oil & gas (2004 Report - technology was the second largest industry in BC); Ontario - financial services, mining and industrial; and Québec - industrial and mining.

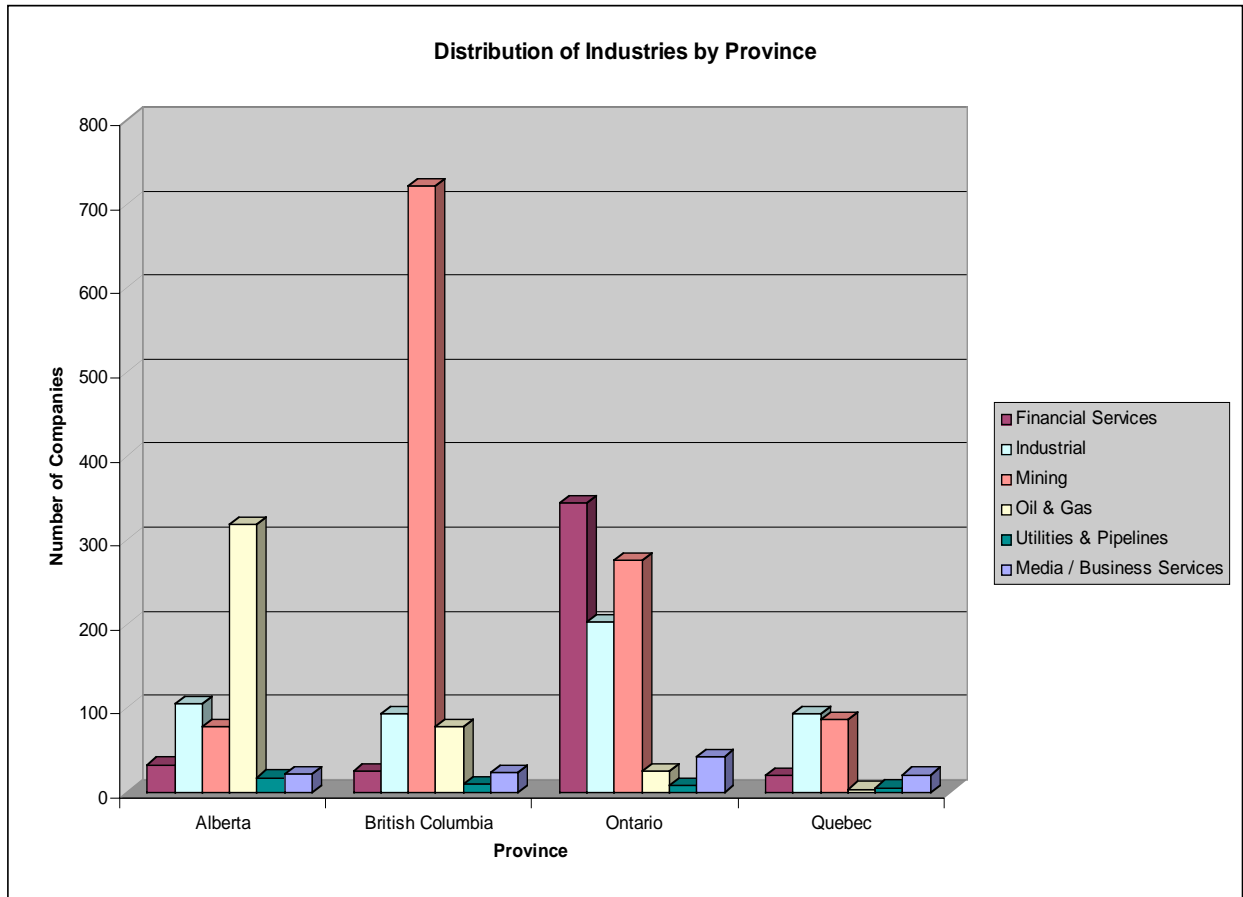


Chart 11

### *Income Trusts in the Canadian Capital Market*

Income trusts represent roughly 10% (\$179 billion) of the aggregate market capital in Canada and 6% (241 trusts) of the total listings on the TSX and TSXV (2004 Report - 5% (\$64 billion) and 4% (131 trusts), respectively). **Chart 12** illustrates that although Alberta and Ontario have the largest percentage of income trusts at roughly 37% each (2004 Report - roughly 36% each), the income trusts based in Alberta represent almost 64% of the aggregate income trust market capital in Canada, whereas Ontario based trusts represent 22% (2004 Report - AB: 50% and ON: 30%).

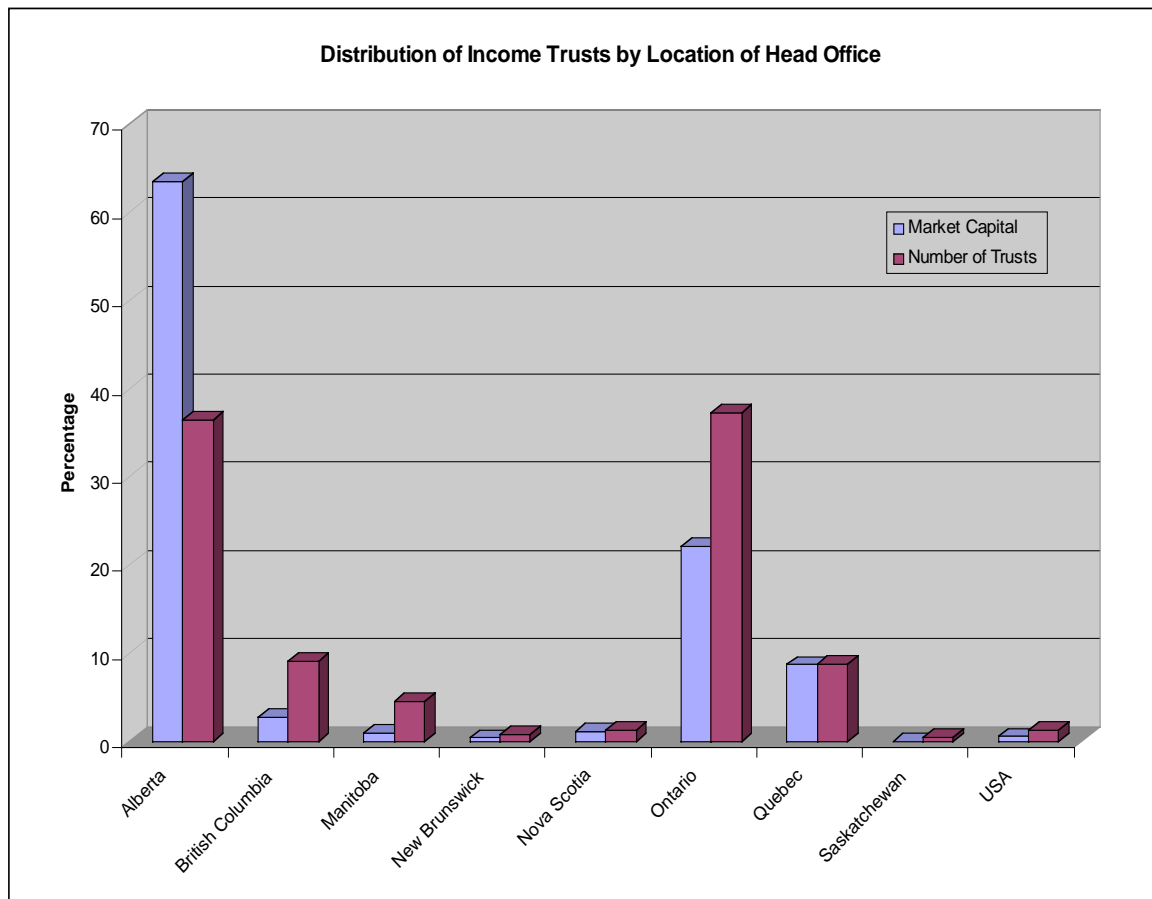


Chart 12

**Chart 13** demonstrates the distribution of income trusts among industries both in terms of numbers of trusts and in terms of aggregate market capital. Oil & gas and industrial trusts dominate the income trust market. The oil & gas industry represents almost 50% (\$88.5 billion) of the aggregate market capital associated with income trusts and 18% (43 trusts) of the total number of listed income trusts (2004 Report - 32% (\$20.5 billion) and 20% (26 trusts), respectively). Income trusts in the industrial category have the opposite representation at 50% (120 trusts) of the number of listed income trusts and 16% (\$28 billion) of the aggregate market capital associated with income trusts (2004 Report - 36% (47 trusts) and 15% (\$9.7 billion), respectively).

Oil & gas income trusts represent 4.7% of aggregate Canadian market capital (2004 Report - 1.8%).

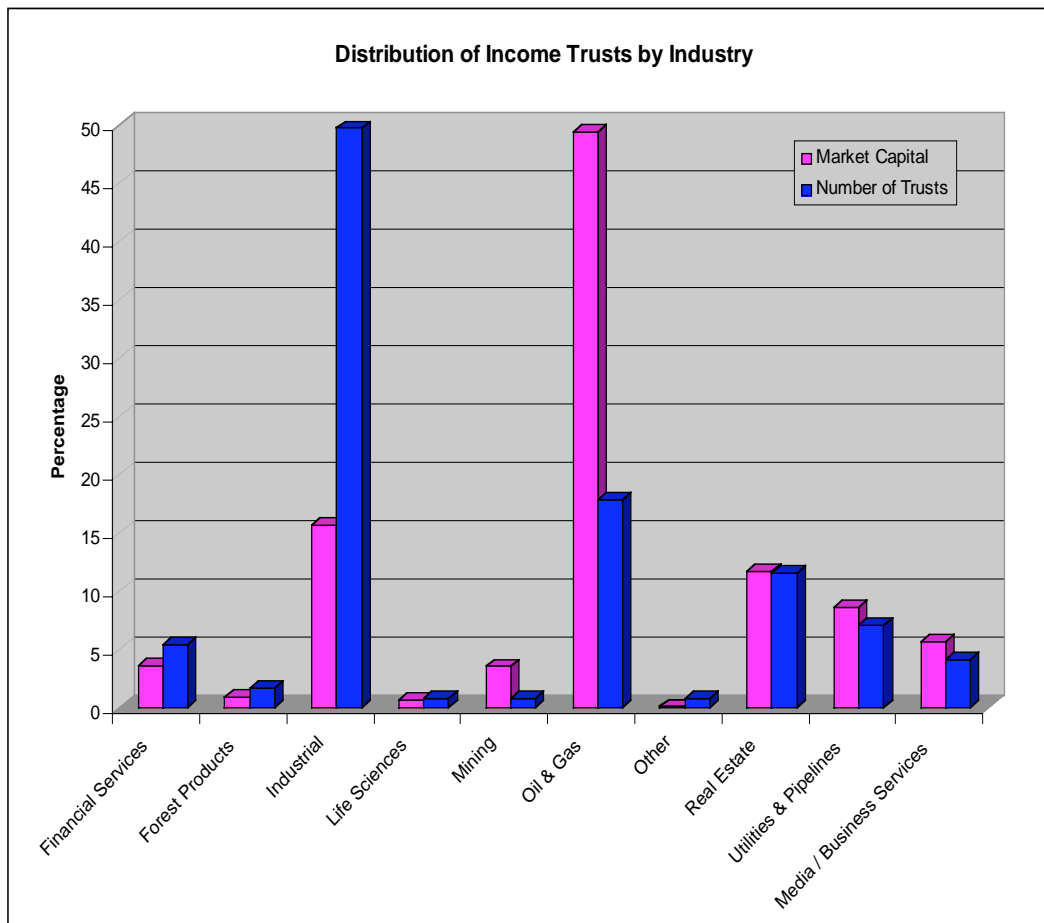


Chart 13

## Alberta's Capital Market

The industry classifications of Alberta based public companies listed on the TSX and TSXV are set out in **chart 14**. Based on numbers of companies, the principal industries in which Alberta-based public companies are engaged are oil & gas (44%), industrial (15%), mining (11%) and technology (9%) (2004 Report - 40%, 15%, 11% and 10%, respectively).

If we compare the Alberta based companies listed on the two exchanges we note that there are significantly more mining and technology companies listed on the TSXV than the TSX - 92% and 82%, respectively (2004 Report - 94% and 87%, respectively). However, there are an equal number of oil & gas listings on each of the TSXV and the TSX (2004 Report - TSXV had 25% more oil & gas listings than the TSX). Industrial companies have slightly more public companies listed on the TSX than the TSXV.

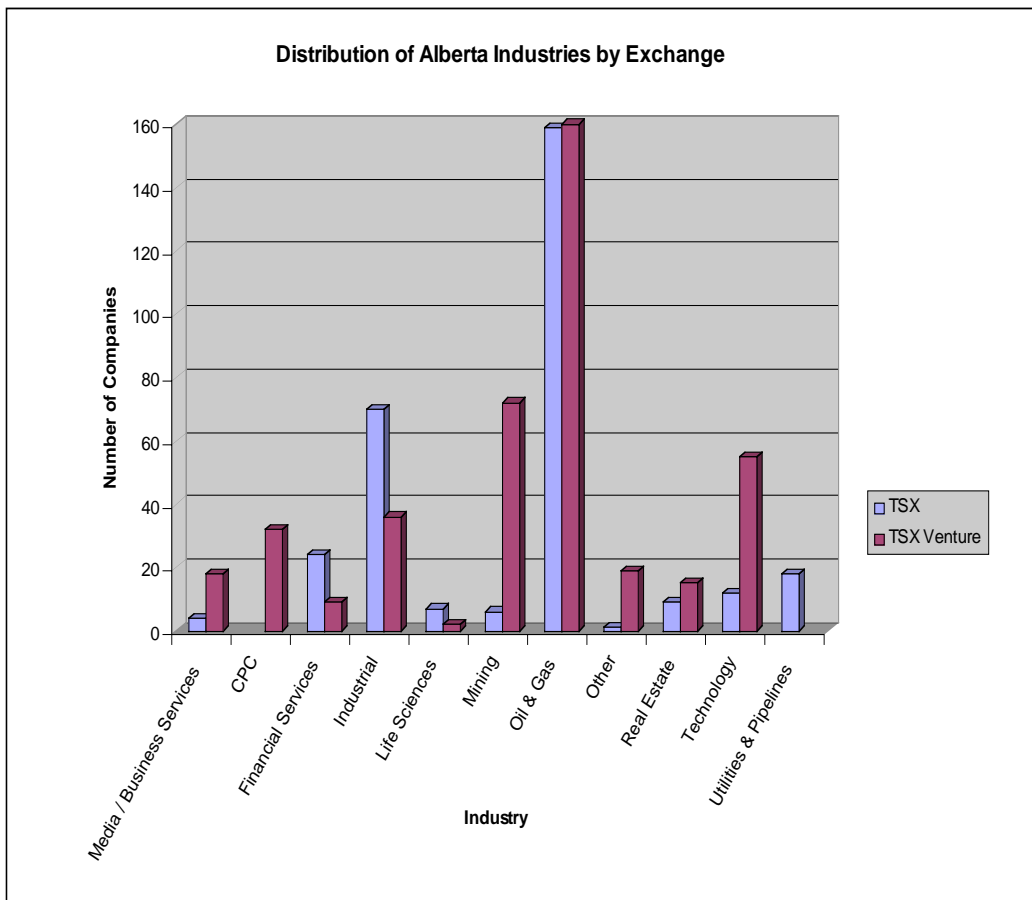


Chart 14



Contrasting numbers of public companies with aggregate market capital (see *chart 15*), mining and technology companies represent 20% of the number of Alberta based public companies but only 3% of Alberta’s capital market (2004 Report - 21% and 2%, respectively). The oil & gas and utilities and pipelines industries represent 46% of the number of Alberta public companies and 87% of the aggregate Alberta market capital (2004 Report - 43% and 77%, respectively).

The aggregate market capital of the oil & gas industry in Alberta is more than twelve times larger than the aggregate market capital of industrial public companies (\$374 billion vs. \$30 billion) as illustrated in *chart 15* (2004 Report - four times larger, \$132 billion vs. \$30 billion).

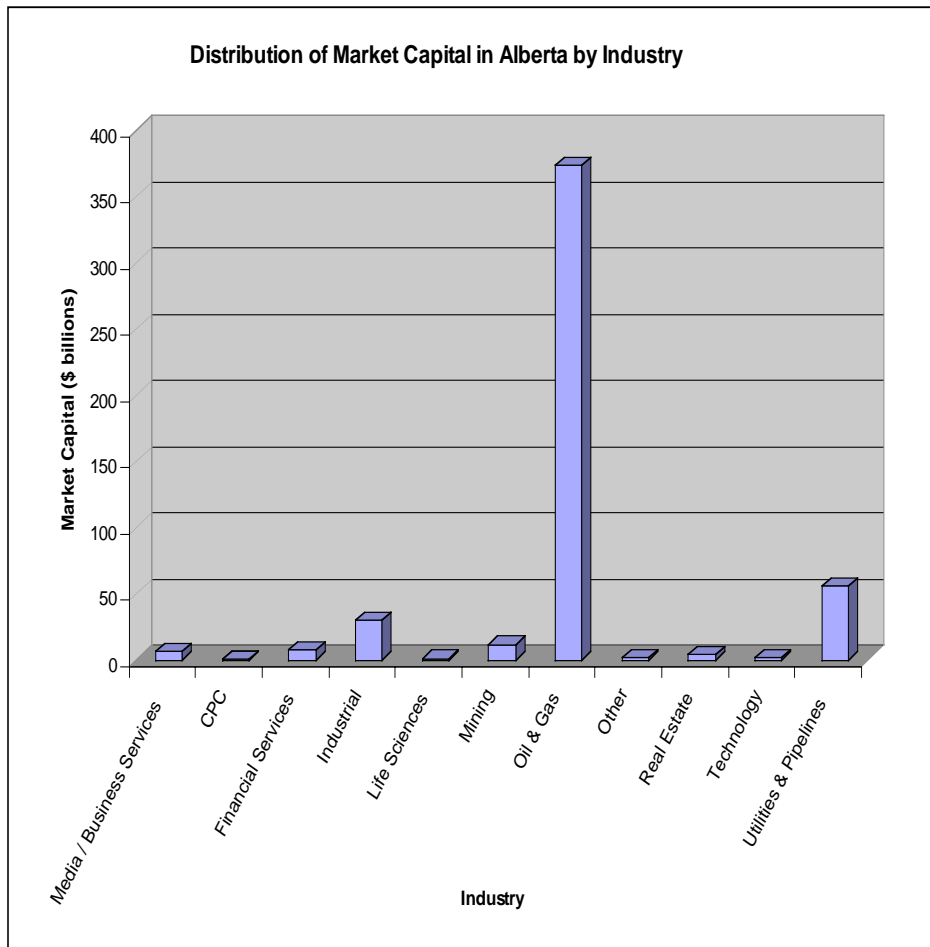


Chart 15

As would be expected, and as illustrated in *chart 16*, significantly more public companies with market capital under \$25 million are listed on the TSXV than the TSX. The reverse is also true for public companies with over \$25 million market capital. The largest proportion of Alberta based TSXV listed companies is in the \$1 million to \$5 million range; however, there is also a significant percentage in the \$10 - \$25 million range. In comparison, the largest proportion of TSX listed companies is represented in the \$25 million to \$1 billion market capital range (2004 Report - \$25 million to \$100 million range).

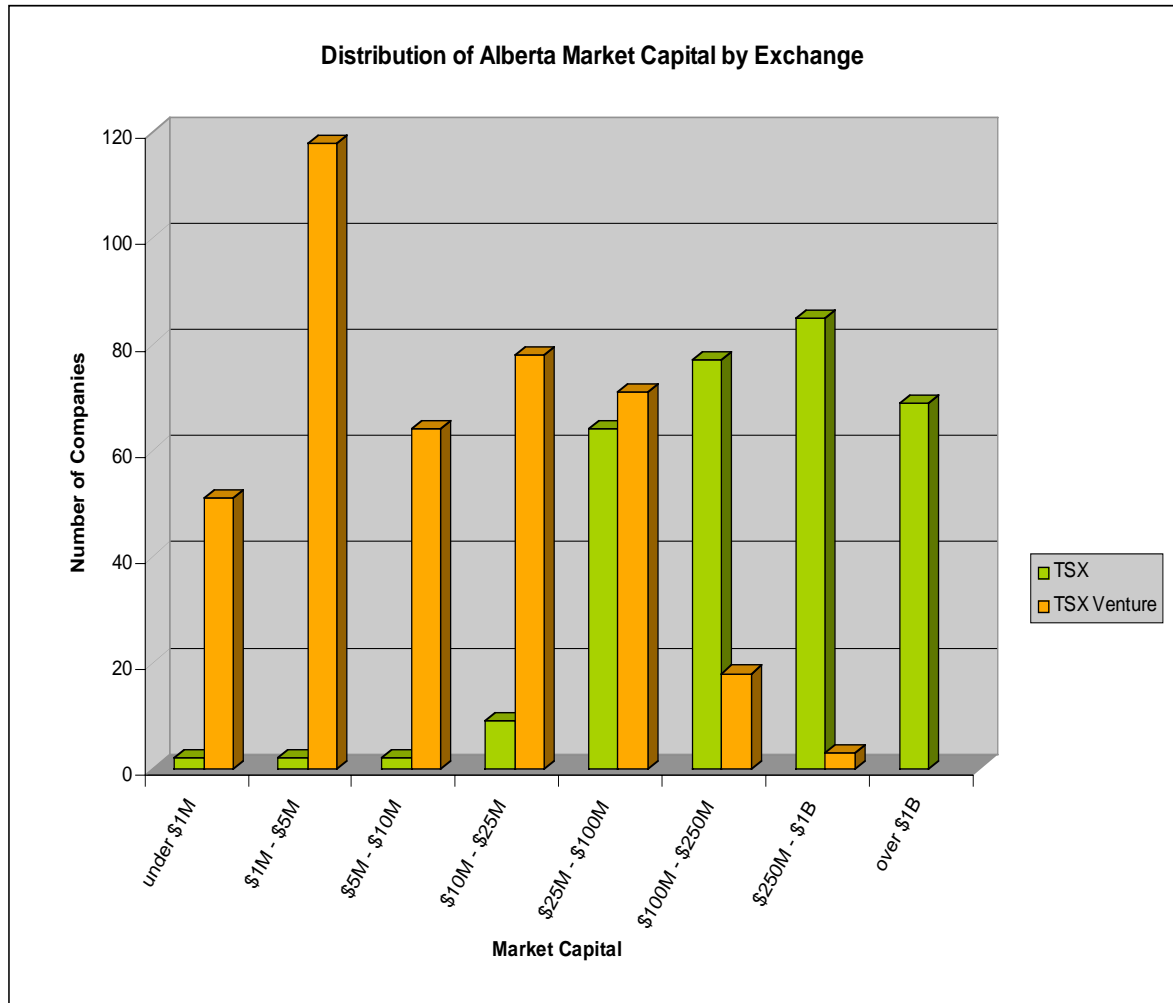


Chart 16

**Chart 17** shows the industries of Alberta based public companies and the market capital ranges of companies engaged in each of those industries. Interestingly, the number of oil & gas companies increases in correlation with increases in market capital ranges; there are twenty-three times as many oil & gas public companies in Alberta with market capital of over \$100 million than there are public companies with market capital under \$1 million (2004 Report - there were only twice as many). The industrial category is relatively equally represented in all market capital ranges, while 44% of Alberta’s mining companies and 68% of technology companies have market capital of under \$5 million.

There are no small pipelines & utilities companies. Most companies (70%) in the industrial category have over \$25 million in market capital, and both the mining and technology industries are dominated (75%) by companies with less than \$25 million in market capital.

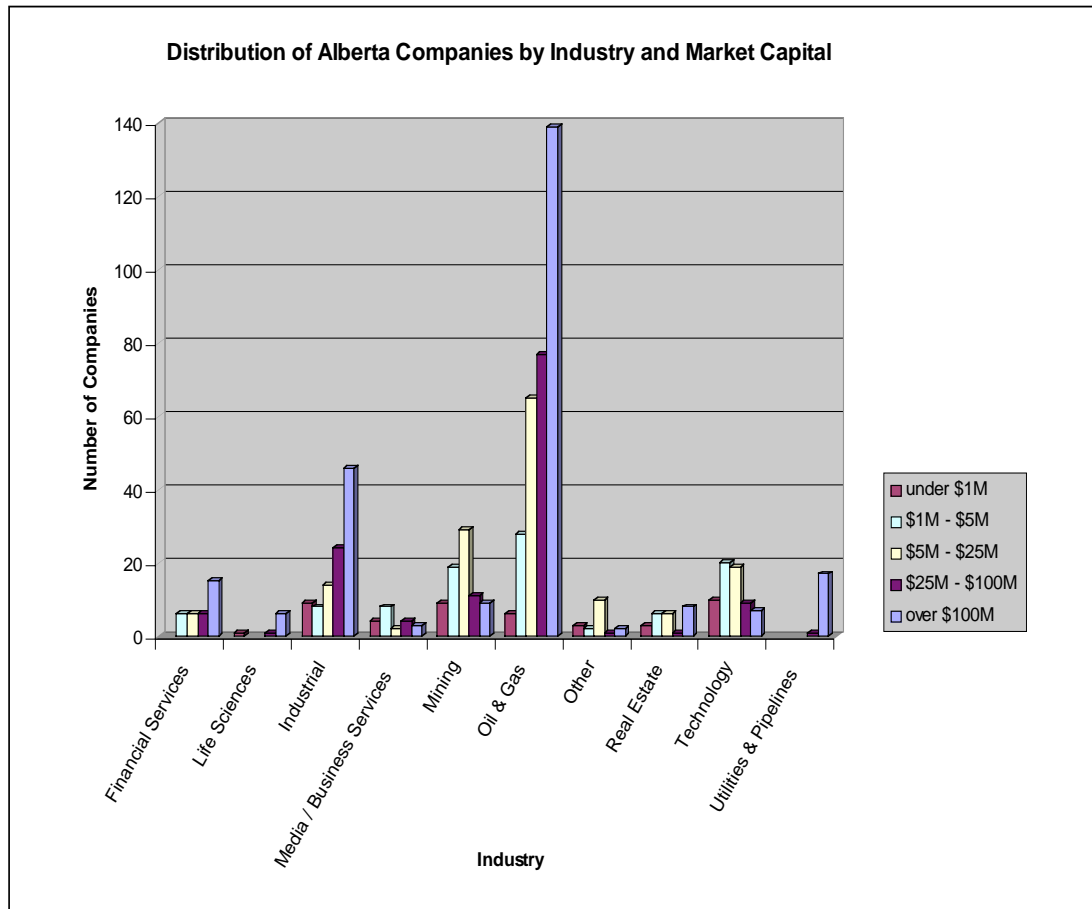


Chart 17

**Chart 18** illustrates the distribution of income trusts among Alberta based companies by industry. Oil & gas trusts represent 76% (\$86 billion) of the market capital associated with Alberta based income trusts and 18% of Alberta's aggregate market capital (2004 Report - 61% (\$19 billion) and 9%, respectively).

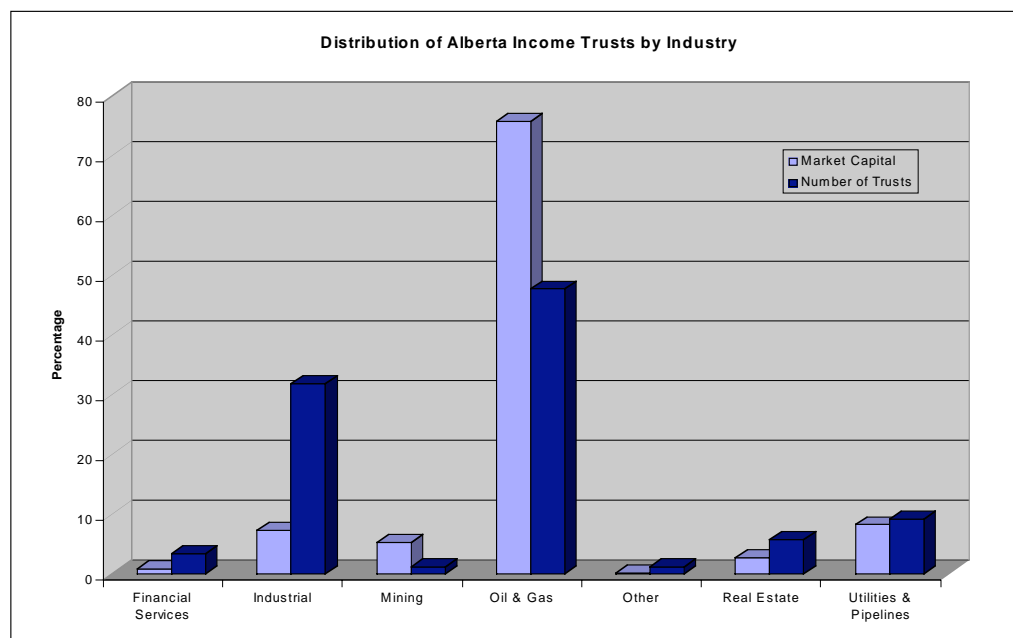


Chart 18

## CONCLUSIONS

Conclusions that may be drawn from the findings include the following:

1. The growth in the oil & gas industry in the past two years has resulted in Alberta capturing an additional 8% of the aggregate Canadian market capitalization. This increased prominence of Alberta's capital market in the overall Canadian capital market continues to support the ASC playing a very active role in policy development and other initiatives within the Canadian Securities Administrators (CSA).
2. The dominance of, and rapid growth and increased investment in, the oil & gas industry, representing almost 30% of Canada's aggregate market capital, warrants increased attention and focus on these companies by securities regulators in Canada and by the ASC in particular.
3. The Canadian capital market continues to be made up of very distinct provincial capital markets, each of which may bring a unique perspective that should be considered by the CSA in policy formulation.
4. Because the capital markets in Alberta and Canada are very clearly tiered markets, the application of the principles of proportionate regulation requires careful consideration by the ASC and the CSA in policy formulation.
5. An increased focus on income trusts may be appropriate given the increase in their representation in Canada's capital markets, almost doubling in number and almost tripling in aggregate market value since the 2004 Report.



A|S|C  
Alberta Securities Commission

4th floor, 300 5th Avenue SW  
Calgary, Alberta T2P 3C4  
403.297.6454  
[www.albertasecurities.ca](http://www.albertasecurities.ca)