Apple Could Surpass Exxon As 'Most Valuable' Company

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NEW YORK (AP) — Here's something to think about the next time you pick up a call on your iPhone: the device you're holding may soon be the signature product of the most valuable company in the world.

Thanks to its line of gadgets that combine the ability to make calls, send email, read books, watch movies and listen to music, Apple Inc. is on a path to overtake Exxon Mobil Corp. as the largest company by market capitalization.

While Apple CEO Steve Jobs will no doubt be happy about his new perch atop the business world, there's more at stake here than mere bragging rights. As soon as the total value of the company's shares edges above Exxon's, Apple will take over the top spot in the Standard and Poor's 500, the market index used by most professional money managers.

That means that billions of dollars invested in funds that track the index will have to shift their holdings to reflect Apple's new weighting. Exxon, meanwhile, may see its share price fall from the same effect. That slide could be accelerated by hedge funds and technical traders who make bets based on the rebalancing of major indexes and would be primed to short the shares of Exxon.

Just as important as the day-to-day flow of dollars among investors, the move will also reflect how the market, and the overall economy, continues to evolve. The list of companies that have sat atop the S&P 500 is short. For years, the top spot rotated among stalwart industrials like General Electric Co., General Motors, and AT&T Inc., before that company was broken up as a result of an antitrust suit in 1984. Twenty years ago, IBM Corp. held the No. 1 position, narrowly beating out Exxon.

Apple's move to the top would be a strong signal that the market is no longer placing as high a value on industrial companies that depend on traditional manufacturing, business spending or natural resources for revenue. Instead, investors are now expecting growth to be driven by spending from average consumers on technology and entertainment.

If Apple becomes more valuable than Exxon, it will be only the second time that a growing technology company which doesn't pay dividends will make up the greatest share of the S&P 500. The first, Microsoft Corp., held the position for two years in the late 1990s during the boom that made personal computers a staple in households around the world.

Today, Apple dominates the business of putting the Internet in your pocket. That's quite a feat for a company that was worth only $7 dollars a share 10 years ago. It closed Friday at $282.52.

Apple still has some catching up to do before it takes the lead, of course. As of now, there is a $60 billion difference in the two companies' market capitalization. If the price of Exxon stays flat, Apple's stock will need to rise 12 percent to move ahead of the oil giant, according to Brian Marshall, an analyst at Gleacher & Company. Exxon doesn't seem likely to surge ahead in value anytime soon, according to research by Morgan Stanley analyst Evan Calio. Exxon "will likely lag in a continued recovery, particularly one driven by oil rather than gas," Calio recently wrote in a note to clients.

For most companies, a 12 percent jump in a year would be fantastic, let alone in a few months. But Apple has proven that it's not a normal company. In May, it leapfrogged ahead of Microsoft to take the No. 2 spot on the S&P 500 list. Gleacher's Marshall expects Apple to pull off a similar feat with Exxon not long after it reports its earnings on Oct. 18.

What sets Apple apart? For one thing, it's one of the few gigantic companies that is still growing like a startup. Its revenue is expected to jump 50 percent by the end of this year and an additional 20 percent next year, Marshall says. Much of that comes from its line of iPads and iPhones, which account for half of its revenue.

The fact that all of this growth comes in the midst of an economy that, until recently, was thought to be toeing the line of another recession is all the more impressive. While consumers have been putting off big-ticket items like new cars or homes and downsizing their vacations, they seem to have convinced themselves that they may as well buy devices to make all that time spent at home more exciting.

That helps Apple in another way, too. Because users of iPads and iPhones are tapped into Apple's iTunes store, where the company rents and sells movies and television shows, you could easily consider Apple a cable company as well. If you look at it that way, its base of 200 million customers makes it five times larger than Comcast Corp., the largest cable company in the United States.

Sales through iTunes now account for 8 percent of Apple's revenue, but will likely increase as the company gets a bigger share of the consumer's living room with its updated Apple TV device that streams entertainment to television sets. Any small increase in iTunes sales pumps up the company's bottom line, considering that it gets 30 cents for every dollar spent on a song or book purchased through its online store.

The company is also poised to expand its share of the global personal computer market, which accounts for 300 million units sold each year. "As people buy the iPad and get accustomed to it, it may become their primary PC device," said Toan Tran, an analyst at Morningstar.

For lay investors, Apple's move to the top of the S&P 500 won't bring drastic changes. Even though Appledoesn't pay a dividend like Exxon, its new positioning wouldn't affect the yield of the index, said Howard Silverblatt, a senior index analyst at Standard and Poor's.

And Apple shareholders will still have something to complain about: the approximately $50 billion in cash sitting on the company's balance sheet.

"Apple needs to do something with all of that capital," Tran said. "I could understand wanting to have something in reserve, but $50 billion is such a ridiculous number that they should seriously consider returning some of it to shareholders in the form of share buybacks."