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# Stars of the data world



## VALUE STOCK TO WATCH Vocus Communications, VOC



exchanges. I wasn't exaggerating when I said "impressive". Today Vocus enjoys outstanding customer satisfaction. It has more than 100 customers, many of which are retail ISPs, including Vodafone, iiNet, gotalk, Internode, TransACT and BigAir.

Vocus's success hinges on the probability that we will continue downloading movies, streaming podcasts, relying on GPS, booking holidays and logging into online broking accounts. If Australian internet traffic increased 56% last year, imagine that figure in three years' time, let alone another 15!

When it comes to extraordinary businesses Vocus is a shining star – extraordinary prospects, strong competitive advantage in management and the IRU, little debt and good cash flow. Unlike a traditional toll road operator, Vocus requires very little additional infrastructure or staff so capital intensity and labour intensity are reduced, if not completely absent.

Vocus recently signed an exclusive contract with Vodafone NZ to supply all its international data capacity on a multi-year term once the NZ telco's current supply contracts finish. This deal effectively underwrites the company's operating costs, giving prodigious management the freedom to chase higher margin business.

Vocus reported half-year revenue growth of 92% and 54% in net profit after tax. I estimate Vocus's Value.Able intrinsic value will increase almost 20% over three years, rising from my current estimate of \$2.45. Given the forecast explosion in internet use, these numbers are insignificant.

*Roger Montgomery is a portfolio manager at Montgomery Investment Management. His book Value.Able is available at [www.roger-montgomery.com](http://www.roger-montgomery.com).*

## Roger Montgomery marvels at a new 'toll road'

**UNLIKE A CONVENTIONAL "BLUE chip"** portfolio founded on the principles of diversification in large well-known companies, the Money Value.Able portfolio is driven by the pursuit of extraordinary businesses at prices less than they're worth. This month I have chosen to diverge slightly from the picks and shovels theme so successful last year. However I will remain underground.

Did you know there is a toll road that runs from Sydney to the US, via Fiji and Hawaii? And another – for redundancy – that runs via Auckland and Hawaii? These are not traditional toll roads – they're underwater telecom cables and they don't carry cars, they carry data. And there's a company that collects the tolls.

Owner Southern Cross Cables is witnessing extraordinary traffic growth. Last year Australian internet traffic rose more than 56%, and that's before the national broadband network or cloud computing.

Unlike a conventional toll road, internet traffic growth is mind-numbing. And thanks to Twitter, Facebook and conventional email, the tolls keep rolling in, even while you sleep.

Your iPhone, laptop, GPS, Foxtel box and nowadays even your fridge all require constant use of the internet. For this luxury

you pay your internet service provider and your mobile phone carrier. They in turn pay the carrier. Vocus Communications (VOC) is one such carrier and, fortunately for investors, it's listed on the ASX.

Carriers such as Vocus, Big Pond, Vodafone, iiNet and Foxtel purchase "indefeasible rights of use" or IRUs. This grants them exclusive and non-revocable access to a defined amount of data transmission bandwidth on Southern Cross's cable.

Owning an IRU represents an impressive competitive advantage. And with a 15-year life and the computing "cloud", the sky really is the limit! Such businesses, however, require good managers with contacts, credible reputations and proven experience.

The company's founder, James Spenceley, is a 12-year veteran of the industry, having been critical to the purchase and connection of COMindico, the toll road Vocus now holds an IRU on.

Spenceley sold his family home to fund a wholesale telecoms start-up in September 2007, and in April 2010 entered into a binding sale agreement and back-door listed Vocus for \$20 million. The board is impressive. Chairman David Spence is the former CEO of OzEmail and former MD of Unwired, and non-executive director Stephen Baxter founded and sold Pipe Networks to TPG in 2010 for \$373 million. Executive director Mark de Kock managed the technical design and launch of Qantas.com.au and the automation of several stock