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What Google's record bond issue means for Australian investors

By Perpetual Asset Management

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Google's AI spending is bringing new opportunities to Australia's bond market. BENJAMIN CHAN explains

- Google raised A$5.5 billion in Australia

- Deal could encourage other hyperscalers and large established international names down under
- Find out about Perpetual's Credit and Fixed Income capabilities

A RECORD breaking A$5.5 billion Australian bond raising from Google's parent company has given local investors new ways to diversify beyond familiar borrowers like banks and government-owned corporations, says Perpetual's Benjamin Chan.

Alphabet's (NASDAQ:GOOG) first-ever Australian bond issue offered a range of maturities and a mix of fixed- and floating-rate options as it seeks to fund continued capital spending on artificial intelligence.

Chan says the issue potentially marks an important milestone for Australia's corporate bond market, especially at the "AA" rated ratings band, which has traditionally been dominated by financials and government-backed businesses.

Google brings a robust core business that benefits from a strong global presence which allows investors to spread their risks beyond companies exposed to domestic Australian economic conditions.

"Google allows investors to participate in a theme that's not readily available within Australia – through a company that has a solid global franchise," says Chan, a credit and private debt analyst within Perpetual's Credit & Fixed Income team.

"YouTube, search and all the related income streams are the main reason we like Google.

"AI may be why they came down here, but as long as the core business of Google maintains its status quo as a global leader – and provided they maintain balance sheet strength while conducting AI investment – credit investors can benefit."

AI capex race and increasing choice for investors

Alphabet and its global hyperscaler competitors Amazon, Meta and Microsoft are spending unprecedented amounts on AI, building data centres, buying specialised AI computing chips and training new AI models. The spend could bring more issuance from hyperscalers

Alphabet's capex bill was US$90 billion last year and is set to more than double to some US$200 billion this year.

To help fund this, Google offered differing maturities, spanning from three, five all the way to 10- and 20-year tranches across fixed and floating rate formats. In total, the issuance was well-received by investors with a A$5.5 billion issuance size from an estimated A$18 billion orderbook.

“Issuers don’t typically issue 20-year maturities. But Google did this, along with three-, five- and 10-year,” explains Chan.

“Google’s issuance had broad appeal and was well received and probably explains why there was such a large orderbook.”

Potential positives for Australian debt markets

Chan says Alphabet’s raising can be a positive for Australia’s debt markets encouraging other hyperscalers and large global companies seeking to broaden their funding mix to also issue debt in Australian dollars.

“The Aussie market has recently seen a solid amount of inaugural issuance from large, established international names,” he says.

“I'd imagine there are other companies sitting on the sidelines watching the Aussie market digest the Google issuance and other international names starting to think that the Aussie dollar market is a funding destination they themselves should consider.

“That can bring benefits for local investors – such as more diversification opportunities, more liquidity and more depth.

“And provided there's a sensible cadence of issuance, Australian investor demand can probably absorb it.”

About Benjamin Chan and Perpetual’s Credit and Fixed Income team

Benjamin Chan is Credit & Private Debt Analyst at Perpetual Asset Management. In this role, he is responsible for performing credit analysis for corporate credit and loan issuers.

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We take a highly active approach to buying and selling credit and fixed income securities and invest extensively across industries, maturities and the capital structure.

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