Fair Play for Fair Pay

Examining Wage Boost Impact Ahead of Budget 2027

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Prime Minister Anwar has signalled more measures to boost wages in 2027 (link). This would be a sentiment cheer for the man on the street, and we monitor impact to corporates. Large companies and selected sectors were said to make very high profits but offered low wage rates.

While there are no details of these wage boosting measures, we assess that the pressure for listed firms to raise wages as being manageable. Firstly, canvassing selected listed firms in our coverage, YoY wage per employee has grown at a 6% clip (median), slightly edging out the 5.3% wage growth (median) in Malaysia in 2025. Secondly, most sectors' wage growth have caught up with labour productivity expansion, with construction sector the exception, supporting the thesis for hike, if any, as moderate. Thirdly, in the case that wage floors do rise, some sectors have historically been able to pass through pressures better, such as technology firms. Consumers and manufacturers such as gloves players seen as more at risk, for every similar RM100 increase in a wage cost floor. Within consumer names, we consider NESTLE, PADINI and 99SMART to be relatively insulated, and KOSSAN for gloves. Impact to plantation stocks sit in between these 2 sectors, by our count, and monitoring more pure-play Malaysian planters.

Pressures at listed firms to raise wages seen to be manageable

Large companies, some sectors singled out. The government remains dissatisfied with wage levels despite rising productivity and higher profits reported by some companies. Prime Minister Anwar Ibrahim also have said stronger measures to address this issue will be a priority in Budget 2027. Large companies and several sectors, including plantation, industries and factories that make very high profits were mentioned as having low wage rates.

Wages have generally kept up with labour productivity in many sectors. The intention now is to ensure workers benefit fairly from economic growth and rising productivity. There are few contributors to economic growth including capital, labour and technology advancement, etc. But one of the measurable productivity yardsticks in the 13th Malaysia Plan is labour productivity growth, targeted for of 3.6% p.a., from 2026 to 2030. As of 2Q26, this rate was slightly better YoY at 4.9% (labour productivity per employee). The 2025 wage and salaries survey was recently released in September by Department of Statistics Malaysia, allowing us to juxtapose against labour productivity growth. Construction is a key segment where an increase in real wages has yet to match the gains in labour productivity, whereas other sectors have – going by either the YoY growth in 2025 versus labour productivity per employment. We have measured using labour productivity per employment as opposed to the more commonly quoted labour productivity per hour workers as using the latter would show a larger gap between wage growth and productivity.

Exhibit 1: Comparing Salary Growth by Sector to Labour Productivity Per Employment

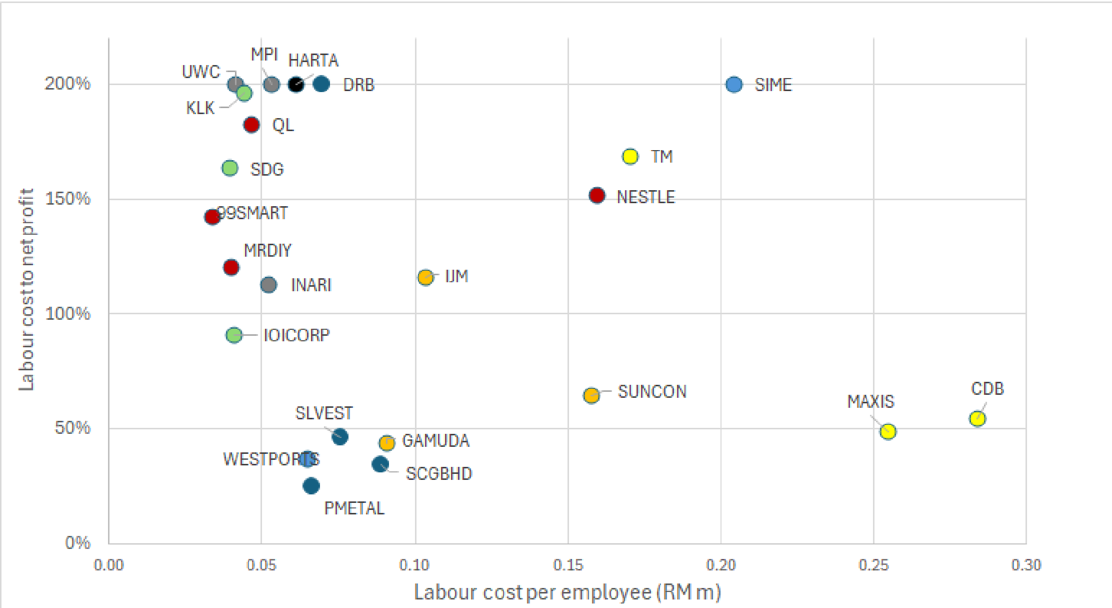
Median Monthly Salary (nominal salary)									
Sector	2021	2022	2023	2024	2025	4-year CAGR (nominal)	4-year CAGR (real terms)	2025 YoY	2025 YoY (real terms)
Agriculture	1,490	1,555	1,593	1,698	1,813	5.0%	3.2%	6.8%	5.6%
Mining & Quarrying	3,921	4,237	4,295	4,450	4,604	4.1%	2.2%	3.5%	2.3%
Manufacturing	1,976	2,150	2,360	2,490	2,663	7.7%	5.8%	6.9%	5.8%
Construction	1,781	1,919	2,044	2,051	2,270	6.3%	4.4%	10.7%	9.5%
Services	2,550	2,552	2,770	2,894	3,043	4.5%	2.7%	5.1%	4.0%
Labour productivity per employment (real terms)									
Sector (RM)	2021	2022	2023	2024	2025	4-year CAGR	-	2025 YoY	-
Agriculture	13,190	13,456	13,421	13,827	14,145	1.8%	-	2.3%	-
Mining & Quarrying	312,390	319,089	320,845	323,554	322,270	0.8%	-	-0.4%	-
Manufacturing	32,158	33,483	32,787	33,838	35,183	2.3%	-	4.0%	-
Construction	9,175	9,666	10,130	11,839	13,188	9.5%	-	11.4%	-
Services	21,288	22,751	23,138	23,946	24,851	3.9%	-	3.8%	-

*Source: DOSM, Kenanga Research *for real terms, we have adjusted using GDP deflator (base year CPI 2010)*

How leveraged are listed firms to change in wage structures?

Planters and consumers among more susceptible to wage changes. In exhibit 2, we selected names with generally larger market cap players in each sector to illustrate the size of labour cost to profits (y-axis), plotted against labour cost per employee (x-axis). This is a simplification as it doesn't discriminate between seniority of employee. If a floor cost for wages were to rise, essentially those in the upper left quadrant more impacted, ie those with lower labour cost per employee and higher impact of cost to net profit, all things equal. Technology sector names, planters and consumer stocks generally fall into this category. We have nevertheless observed that in the past technology names have been more adept in passing through cost changes.

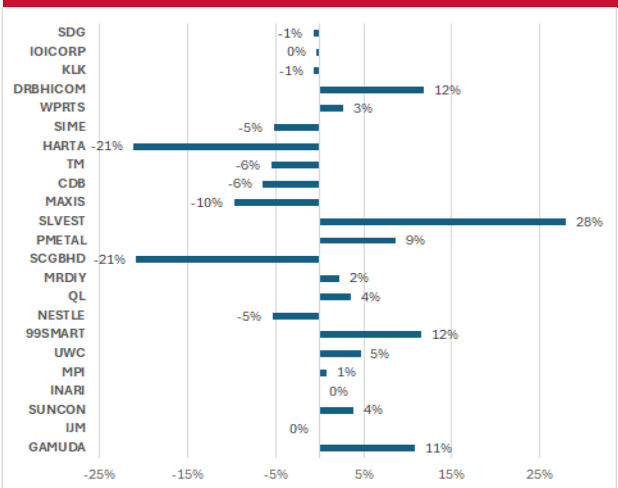
Exhibit 2: Average Labour Cost Per Employee versus Labour Cost to Net Profit



Source: Kenanga Research, Companies. For companies on Y-Axis above 200%, we presented as 200%

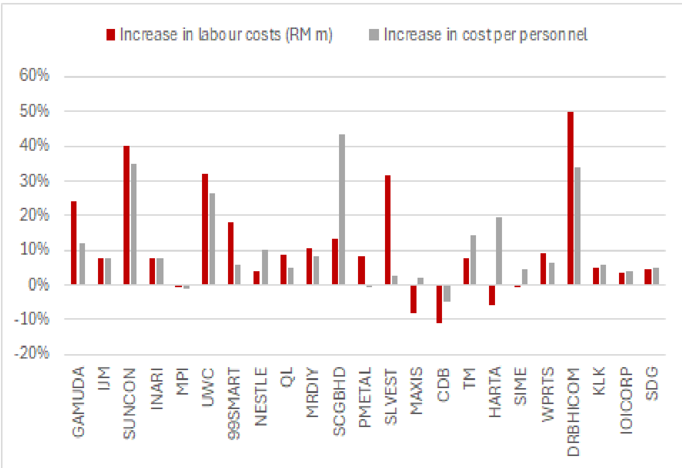
Large listed firms' pay have eclipsed the median wage increase for 2025. Based on the sample above, we also estimated that generally the median growth of labour cost per employee in over the past year is c6% YoY, essentially eclipsing the 5.3% median wage increase to RM2,940 in 2025. Only 2 of the above companies showed negative YoY growth in cost per employee. Most of the sectors show increase in number of employees, and in our sample that is with the exception of telcos, to a small extent plantation giants. Sectors that show growth in hiring appetite were construction and tech and broadly consumer (exhibit 3).

Exhibit 3: YoY Change In Employees



Source: Bloomberg, Kenanga Research. Comparisons between latest 2 annual reports

Exhibit 4: YoY Change In Labour Costs and Labour Cost per Personnel



Source: Bloomberg, Kenanga Research. Comparisons between latest 2 annual reports

Sensitivity to every RM100 increase in cost assuming via wage floor

Sensitivity. Prime Minister highlighted that steps to raise wages, including public sector salaries, had been undertaken, namely private-sector minimum wage to RM1,700 and setting a RM3,100 bar for government-linked investment companies. There have been calls by unions such as the Malaysian Trade Union Congress (MTUC) to increase minimum wage to also RM3,100 (link), which has also been met by concerns from the employers' standpoint, via the Malaysian Employers Federation. At this juncture, it is unclear to us whether what mechanism to increase wages which could be announced during Budget 2027, but we are particularly more watchful for manufacturers and consumer names, and comments below.

Consumer firms. We believe the most insulated would be **NESTLE (OP; TP: RM106), PADINI** and **99SMART (MP; TP: RM3.80)** from wage pressures, where we analyze the increase of RM100 cost impact from the angle of mix of employees we understand that are earning at minimum wage currently. From our analysis, generally we see this involved 20-40% of employees for the companies that we cover. **NESTLE, PADINI** and **99SMART** are the exception at the lower end of the spectrum, where all staff are at more than minimum or in the case of **99SMART** at less than 3%, blunting any impact of higher wages. On the higher end, we are watching the potential impact to **AEON (OP; TP: RM1.18)** which could be impacted by a larger degree, based on our estimates (referencing earlier news). Broadly, we estimate that each RM100 increase therefore would impact earnings by a factor of 0.13% to 2.74%, before taking into account any mitigating measures.

From historical guidance during wage hikes, we have seen this translate into 1-2% impact to earnings, whereby the impact was on passthrough of RM200 on monthly wages (we note that recent changes in minimum wages have been around RM200-300). More broadly, the effect to stocks would be broadly on sentiment especially given the cost impact adding on to backloaded inflation effects for some firms. At the same time, higher minimum wages could provide some support to consumer spending, with MRDIY, for example, previously seeing 1-2% additional revenue following the last minimum wage hike.

Exhibit 3: Consumer Firms' Impact to Earnings From A RM100 Increase In Minimum Wage

Name	Employees	Labour / personnel costs (RM m)	Cost per employee (RM)	% of workforce impacted	impact for RM100 increase (RM m)	1-yr forward earnings (RM m)	Earnings impact	Remarks
99SMART	25,647	863	33,632	<3%	0.9	712	0.13%	<3% of workforce currently earning the minimum wage
AEON	8,782	440	50,113	40%	4.2	154	2.74%	*affected <5% of total staff costs and <1% of total opex
FFB	1,669	134	80,531	35%	0.7	140	0.50%	*affected c.35% of workforce and RM2.2m p.a. cost impact
F&N	3,840	415	108,177	27%	1.2	411	0.30%	* affected c.27% of workforce and RM5.7m p.a. cost impact
MRDIY	19,300	768	39,795	22%	5.1	675	0.75%	c.22% of workforce currently earning the minimum wage
NESTLE	4,765	760	159,417	N/A	N/A	602	N/A	limited cost impact, as employees are expected to earn above the minimum wage - similar to the previous hike
PADINI	3,400	231	67,949	N/A	N/A	134	N/A	limited cost impact, as most employees are already earning above RM2k
QL	17,588	822	46,736	21%	4.4	482	0.92%	c.3,700 employees (c.21% of workforce) are currently earning the minimum wage

*Source: Kenanga Research. * Based on previous hike guidance. AEON: % of workforce impacted = based on our own estimates*

Glovemakers. TOPGLOV, HARTA and KOSSAN employed an estimated 8,000, 6,500 and 5,000 workers, respectively. For illustration purposes, ceteris paribus, assuming a 'no cost pass-through' scenario, a RM100/month increase in minimum wage is expected to hit bottom line of **TOPGLOV (MP; TP: RM0.71), HARTA (MP; TP: RM1.14) and KOSSAN (OP; TP: RM1.50)** by 5%, 4% and 3%, respectively, based on our back-of-the-envelope calculation. Note that labour accounts for about 10%-13% glove makers' production costs. Based on past minimum wage hikes, the players managed to pass through the hike in cost. From our above-mentioned analysis, **KOSSAN** is least impacted and **TOPGLOV** is expected to be more impacted. Ceteris paribus, (i) based on our estimate, a USD0.20 per 1,000 pieces hike in ASP will offset every RM100/month hike in minimum wage.

Overall, glove players under our coverage have consistently enhanced its plant automation and efficiency and is expected to be less reliance on manual labour. Case in point, **HARTA** has undergone cost optimisation efforts including right sizing, plant digitisation and enhanced automation on its lines and plants which is bearing fruits. In has managed to right size its workers to 6,000-6,500 workforce compared to 7,500 before the start of these cost optimisation efforts 15 months ago. Recall, in order to enhance operational efficiencies and reduce cost, measures included revamping its auto stripping machine, installing AI-vision system to detect defects and digitalisation initiatives across its operations.

Plantations fall in between the earlier 2 sectors. We anticipate that an equivalent rise in RM100 increase in wage floor would result in costs rising by 2% and reducing pre-tax profit by about 3%. In arriving at this estimation, we have only taken account their Malaysian exposures, being respectively 55%/50% and 80% for **SDG**, **KLK** and **IOICORP**. Their operations in Indonesia are accustomed to annual minimum wage increases.

Some sectors have tradionally been able to pass through to end customer. On the other hand, companies in the technology sector especially in the EMS space have in the past been able to pass through higher wages during negotiation cycles. There had also not been any material impact from previous wage hike from the REIT sector. We also believe industrials sector **(WPRTS** and **SIME)** are relatively insulated as well, but monitor for risks in plastics and packaging.

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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