

Impact of COVID-19 Pandemic on Pharmaceutical Manufacturing in China

Portia (Aijia) Liang

Summary

Lockdowns caused by the pandemic has affected the pharmaceutical manufacturing industry in China. However, it is expected that the short-term impact of the lockdown on manufacturing industries will be overcome by the resumption of work, which is supported by projected year-on-year profit growth of pharmaceutical companies.

2020Q1 impact of COVID-19

The impact of citywide lockdowns to contain the spread of COVID-19 inevitably caused disruptions to pharmaceutical manufacturing in 2020Q1, especially for the Hubei province which was locked down from 23 January to 8 April. In this report, we outline the key impact of the COVID-19 lockdown in China, within and outside Hubei.

General trend

According to released Q1 projected profits of about 100 listed pharmaceutical companies (Feng, 2020), the average year-on-year growth rate was +9.57% (*ref: Appendix*), with API companies generally doing well (Sina, 2020). The range of growth is large; the highest expected profit growth being 636.94% while the largest expected loss being -301.37%. One API firm, Shenzhen Hepalink Pharmaceutical Co, Ltd., has a lower-bound predicted drop of 40.8% in year-on-year profits but this is attributed to a change in business planning and an executive decision to exclude the API sales branch from the consolidated financial statement; the company has expressed that API sales have increased during this period (Sina, 2020; *ref: Appendix, row highlighted*).

During the lockdown period, investor confidence in the pharmaceutical industry dropped. China's overall manufacturing PMI dropped from a monthly average of 50% to about 30% in February. For the pharmaceutical manufacturing industry, the PMI dropped to 39.7% (BBC, 2020). However, the PMI was expected to rise in March, running in parallel with predictions of increased production in Q3 as the Chinese government has invested in increasing the supply of drugs (EMIS Insights, 2020).

API manufacturing

Globally, China is the top manufacturer and exporter of APIs. Even though some production lines were impacted due to the pandemic, order volume has increased.

For example, domestic orders of paracetamol have increased by 30-50%, stocks for API companies increased by 20.12% from 2019 to 2020, and overall pharmaceutical total market value increased by 9.19% (21 世纪经济报道, 2020).

Vitamin production was affected during the lockdowns as at least 8 factories producing vitamins were impacted (Dongxing Securities, 2020).

Vitamin	No. of factories affected
Vitamin E	1
Vitamin B1	2

Vitamin B6	3
Biotin	2

Blood products are also in high demand in the short-term as they are being used to treat severe COVID-19 cases (Zhou, 2020), and are thus expected to increase in production (Tao, 2020).

API sales in China are expected to increase due to the development of a COVID-19 vaccine (Tao, 2020).

Work Resumption

Companies interviewed by mainstream news sites have indicated that work resumption of pharmaceutical manufacturing occurred by mid-Q1. For example, Renfu Pharmaceuticals began resuming work by the end of February, albeit with reduced capacity in order to comply with social distancing orders (Sina, 2020). There is also a distinction between the situation within Hubei and outside of Hubei. Within Hubei, listed companies have claimed that the lockdown had not impacted pharmaceutical manufacturing; production companies in the biomedical industry have claimed to be working overtime under strict social distancing measures to combat an epidemic or to meet international orders. As biomedical manufacturing is an essential service during a pandemic, production capacity is reported to have been at full capacity (Xing, 2020). Companies such as Hubei Renfu Pharmaceutical Group Co. Ltd even committed to maintaining supply of over 60 drug product lines even during the Chinese New Year period (Sina, 2020). However, an unnamed API company in Hubei told reporters that safe distancing measures to resume work were extremely strict and production lines can only be resumed in a staggered manner. Consequently, they were only at 30-40% production capacity (Sina, 2020). The evidence for the disruption of the pharmaceutical manufacturing industry inside Hubei is thus mixed. The consensus is that while there is an impact of the pandemic and subsequent lockdowns on economic activity, the extent of it cannot be determined.

Outside Hubei, areas further away from the epicenter have fared better and some API production lines have exceeded 80% of capacity, even surpassing previous years' production at the same quarter (Xinhua, 2020). For example, resumption of work for Qilu Pharmaceuticals in Shandong has reached 95% capacity (Sina, 2020). By March, Shanghai's biomedical industry reached nearly 100% of full work capacity (Xinhuanet, 2020). The impact of the lockdowns outside of Hubei are expected to be a one-time shock that will not affect long-term performance (Sina, 2020).

Limitations

Specific data regarding the exact decline in manufacturing, such as sales figures or production volume, during the January – early March period was not publicly available. To compensate for this, we have referenced interviews with companies to get a sense of the disruption to manufacturing due to the lockdowns.

Appendix: Expected YoY performance of 100 listed pharmaceutical companies

Name of company	Category	YoY revenue change
Jiangxi Synergy Pharma	API	+235.00%
Jiangsu Sihuan Bioengineering Co Ltd	API	+170.00%
Zhejiang NHU Co. Ltd.	API	+70.00%
Jiangxi Fushine Pharma Co	API	+50.00%
Xiamen Kingdomway Gr	API	+20.00%
CSPC Innovation	API	+15.00%
Anhui Huangshan Capsule	API	+1.00%
Shandong Jincheng	API	0.00%
Fuan Pharmaceutical	API and others	-5.53%
PharmaBlock Sciences (Nanjing), Inc.	API	-13.46%
Hunan Jiudian	API and others	-22.40%
Zhejiang Garden Bio	API	-25.69%
Shenzhen Hepalink Pharmaceutical Co., Ltd.	API	-40.83%
Zhejiang Hisoar Pharm	API	-45.67%
Harbin Gloria Pharmaceuticals	Others	+636.94%
Haisco Pharmaceutical	Others	+150.00%
Betta Pharmaceuticals	Others	+140.00%
Zhejiang Hangzhou Xinfu Pharmaceutical Co., Ltd.	Others	+90.00%
Shijiazhuang Yiling	Others	+50.00%
Zhejiang Huahai Pharmaceutical Co., Ltd.	Others	+45.00%
Zhejiang Tianyu	Others	+24.84%
Anhui Anke Biotechnology	Others	+10.03%
Plymouth Pharmaceuticals	Others	+10.00%
Boya Bio-Pharmaceutical	Others	+5.00%
Shanxi Zhendong	Others	0.00%
Shenzhen Weiguang	Others	0.00%
Huaren Pharmaceutical	Others	0.00%
Chongqing Zhifei	Others	0.00%
Zhejiang Jolly	Others	+0.06%
Hebei Changshan	Others	-5.00%
Beijing Beilu Pharmaceuticals Company Limited	Others	-10.00%
Tianjin Chase Sun Pharmaceutical Co., Ltd.	Others	-25.00%
Zhejiang Wolwo Bio-Pharma	Others	-25.00%
Beijing Science Sun	Others	-30.00%
Hybio Pharmaceutical	Others	-40.00%
Beijing Pharmaceutical	Others	-65.10%
Fujian Cosunter Pharma	Others	-66.93%
Sichuan Goldstone As Phrmctcl Inc	Others	-68.68%

Wuhan Hiteck Bio-pharmaceutical Co Ltd	Others	-70.00%
BioKangtai	Others	-85.00%
Sichuan KELUN PHARMACEUTICAL Co., Ltd.	Others	-90.00%
Northeast Pharmaceutical Group Co., Ltd.	Others	-131.00%
Honz Pharmaceutical	Others	-135.03%
ShanXi C&Y Pharmaceutical Group Co., LTD.	Others	-301.37%

Note: Others refers to all other categories of drugs such as chemotherapy drugs that are not specified to be API or FPP.

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