Alcoa's Surprise 1Q Profit Could Boost Wall Street

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Alcoa may have given a slumping Wall Street just what it needed: a surprise profit.

The largest U.S. aluminum manufacturer said Tuesday that it earned 9 cents share in the first quarter. It surpassed analyst forecasts for a small loss by selling more aluminum to a wide range of customers, including car makers and aircraft manufacturers, and operating its plants more efficiently.

Alcoa is considered a barometer for the economy. It's also the first of the 30 companies in the Dow Jones industrial average to report results. Its stock rose 5.3 percent in after-hours trading, providing hope that the stock market might halt its longest and deepest slump of the year on Wednesday.

"It looks like they're going to get the earnings season off on a good note," said Argus Research analyst Bill Selesky.

Alcoa's net income of $94 million marks a turnaround from the $191 million loss it reported for the fourth quarter. But it's 70 percent below net income of $308 million, or 27 cents a share, posted a in the year-earlier quarter.

Revenue rose to $6 billion from $5.95 billion. Analysts predicted revenue of $5.77 billion.

Alcoa said sales rose from the fourth quarter across most of its markets, including automobiles, aerospace and other transportation, to packaging and industrial products. That offset lower realized prices for aluminum and alumina, a material used in processing aluminum.

Investors were anxiously waiting to see Alcoa's results, scheduled for after the market closed. Fears of a bad earnings season contributed to a recent losing streak that wiped out more than half the first-quarter gain for the Dow, and more than a third for the Standard & Poor's 500.

During the first quarter, analyst expectations for earnings for companies in the Standard & Poor's 500 index went from an increase of about 3 percent to a decline of 0.1 percent, according to FactSet.

Investors were also watching for Alcoa's forecast for 2012 global aluminum demand. It reaffirmed its expectation for a 7 percent increase. The company expects strong demand for aluminum used in autos, heavy trucks and trailers to remain strong in North America, which accounts for nearly 50 percent of Alcoa's business.

In the U.S., auto sales rose 13 percent to 3.5 million cars and trucks in the first quarter, and car companies and suppliers were scrambling to meet demand. Many

analysts expect the auto industry to have its best sales year since 2007. A trade group for the aluminum industry said that car and trucks made in the U.S. contain an average of 343 pounds of aluminum. That's about 9 percent of the weight of a vehicle.

The company also expects China's automotive market to grow as much as 7 percent this year. Demand for aluminum remains weak in Europe, which is struggling to resolve a sovereign debt crisis.

Alcoa's upbeat earnings could be a good sign for other materials companies. The materials sector — including metals and mining, diversified chemicals and construction materials — was expected to show the biggest decline.

"When you look at all the cost cuts (materials) companies did during the recession, they're a lot leaner now than they were a couple of years ago," Selesky said. "I think it points to companies doing a bit better than originally expected just based on running a more efficient, leaner company."

Alcoa cut some smelting and refining operations earlier this year after demand fell late in 2011 as customers became concerned about a slowing global economy. And, faced with high costs for raw materials and energy, Alcoa boosted productivity.

"It's just a significant effort from all of our businesses and, obviously, the key factor in our earnings improvement," Chief Financial Officer Chuck McLane told analysts during a conference call.

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