Alcoa Inc. (AA), the largest U.S. aluminum producer, reported earnings that beat analysts' estimates following a better-than-expected performance at its unit that supplies components to aerospace and power companies.

Profit excluding expenses related to output cuts and a legal settlement were 7 cents a share in the second quarter, Alcoa said yesterday, beating the 6-cent average of 15 estimates compiled by Bloomberg. Sales fell 1.9 percent to $5.85 billion, surpassing the $5.79 billion average of nine estimates.

Alcoa’s engineered products and solutions business saw operating income rise 12 percent from the first quarter, exceeding the 5 percent growth forecast by the company in April. It’s boosting sales at downstream divisions as Chairman and Chief Executive Officer Klaus Kleinfeld tries to reduce reliance on aluminum smelting, which has been hurt by lower metal prices.

“Aerospace is really what’s driving engineered products,” said Lloyd O’Carroll, an analyst at Davenport & Co. in Richmond, Virginia, who recommends buying the stock. “Revenues are growing, and growing pretty strongly. Margins are continuing to improve.”

Alcoa traded at 6.21 euros in Frankfurt as of 9:50 a.m. local time. That’s equivalent to $8, a 1 percent increase from yesterday’s closing price in the U.S. The company, the first member of the Dow Jones Industrial Average to report quarterly results, has fallen 8.8 percent this year in New York, the worst performance on the DJIA.

Aviation Market

Alcoa makes aircraft wings and fasteners used to attach fuselages, wings and engines to one another. The civil aviation market is in an upswing, with Boeing Co. and Airbus SAS securing orders for 848 aircraft valued at $129 billion at June’s Paris Air Show, adding to a backlog already stretching several years for some models.

“Alcoa will benefit from all of this as our position in this segment is very, very strong,” Kleinfeld said yesterday on a conference call with analysts.

While the alumina, flat-rolled and engineered products units all recorded an operating profit for the quarter, the primary metals business -- Alcoa’s largest by sales -- swung to a $32 million loss, according to a statement from the New York-based company.

Smelter Shutdowns

The company confirmed the closing of 149,000 metric tons of aluminum-smelting capacity so far in 2013, on top of 531,000 tons of cuts last year, as it tries to boost the competitiveness of its smelters. More halts are likely as it reviews the future of other plants accounting for about 11 percent of capacity.

Alcoa’s status as a bellwether for the stock market has diminished along with its clout and credit rating, Richard Moroney, editor of Dow Theory Forecasts newsletter, said in June.

Investors are looking beyond Alcoa, which in the past 11 years has lost its position as the world’s largest metals company to BHP Billiton Ltd. (BHP), Paul Hickey, co-founder of Bespoke Investment Group, said in April. Moody’s Investors Service cut its rating on Alcoa’s $8.6 billion of debt to junk in May, citing the decline in aluminum prices.

Aluminum for delivery in three months, the most active contract on the London Metal Exchange, has fallen 13 percent this year. It traded at $1,758 a ton on June 27, the lowest since July 2009.

Net Loss
Alcoa’s second-quarter net loss widened to $119 million from $2 million a year earlier. The average of five analysts’ estimates was for net income of $59.3 million.

The unexpected loss came after Alcoa recorded $42 million in expenses related to production cuts at a Quebec smelter. It also took a $62 million charge on a proposed settlement with the Department of Justice over its probe into alleged corruption in connection with alumina sales to Aluminium Bahrain BSC.

Alcoa said a settlement proposed to the Securities and Exchange Commission over the same allegations was rejected by the regulator.

Alcoa maintained its estimate that global aluminum demand will rise by 7 percent this year, led by 11 percent growth in China. Demand will exceed supply by 315,000 tons, the company said in presentation slides for the conference call.

Worldwide production has surpassed demand for the past eight years, according to data compiled by Bloomberg.

To contact the reporter on this story: Sonja Elmquist in New York at selmquist1@bloomberg.net

To contact the editor responsible for this story: Simon Casey at secasey4@bloomberg.net

©2013 BLOOMBERG L.P. ALL RIGHTS RESERVED.