

TOP 100

MOST VALUABLE AIRLINE LOYALTY PROGRAMS

January 2023 edition



ABOUT US

On Point Loyalty is a global advisory firm focused on loyalty strategy and finance.

In the airline loyalty ecosystem, we partner with leading airlines, technology providers, financial institutions and investors to shape and realize their airline loyalty vision.

With tailormade solutions, ranging from strategy consultancy to outsourced operating models, we help our clients to define the future – and create a competitive edge.

Our suite of Financial Planning & Analysis tools puts insights at the fingertips of program managers, owners and investors.

AT A GLANCE

Once the best kept secret of the airline industry, loyalty programs have irreversibly stepped onto the centre stage of global airline economics during the COVID pandemic.

For this report, On Point Loyalty researched over 170 airlines globally and collated an extensive set of publicly available data points.

Coupled with our proprietary models and insights, we developed pro forma valuations for each of the programs included in the study.

This report ranks the top 100 most valuable airline loyalty programs in terms of their valuation.

The report shows the magnitude of the value captured in airline loyalty programs – for all sizes of airlines.

BACKGROUND TO THE REPORT

This edition marks the third time we are publishing the report following the 2017 and 2020 editions. During the COVID-19 crisis, airline loyalty programs stepped into the limelight on the back of the segmental performance disclosures by leading US carriers, followed by record-breaking financing structures.

As advisers to airlines, program partners and investors, we spend considerable time developing strategies to optimize and accelerate the value of these programs. In 2017, we first set out to create more clarity and shed light on the tremendous value of the programs. The second report was published in 2020, and now, three years later, it was time again to take stock following the tumultuous period during the pandemic.

Regardless of the changes in the ecosystem, the intent of our report remains the same: provide greater insights and awareness around the value of loyalty programs to the airlines, public investors and analysts.

The record-breaking financing structures enabled by loyalty programs have put loyalty programs firmly on the radar

METHODOLOGY

Our research included the largest 170 commercial passenger airlines and over 50 primary variables for each airline loyalty program. The resulting dataset is split into three core categories: the airline profile, the profile of the loyalty program and the country profile.

For the airline profile, we collected detailed information on the airline's business including the number of passengers carried, the profile of the airline (full-service versus low cost carriers), revenue passenger kilometres (RPK's), current and future fleet, and its relative dominance in the home market. We also analyzed the financial health of the airlines.

Secondly, we completed an assessment of the respective individual loyalty programs. Our assessment included the sources of accumulation across air, financial and other verticals. We considered the credit card dynamics that vary greatly across countries in terms of penetration, usage, interchange rates, etc. In addition, we described the redemption options offered by each program and developed scores for the attractiveness of those options as well as the program in general.

Thirdly, we compiled the individual home-country factors. We built country-specific estimates for valuation multiples considering GDP growth projections, political stability, absolute GDP per capita levels and general investor friendliness amongst other factors. Each of these factors are measured using independent, externally-sourced data from institutions such as the World Bank.

In determining the pro forma Adjusted EBITDA, we applied the appropriate parameters for key drivers such as the relative cost of rewards, long-term breakage estimates and overheads based on our insights and global best practices.

In the final step, we applied the appropriate multiple to the pro forma Adjusted EBITDA. For each airline, we adjusted the multiple upward or downward based on a variety of factors. The valuation estimates derived were based on the assumption of a minority (10-49%) sale of equity to a private equity firm, strategic investor or through an IPO on a major stock exchange with a long-term agreement in place.

The modelling results were calibrated and refined using programs with public information as well as benchmarking leveraging our deep experience within the industry.

The valuation algorithm uses a combination of more than 50 primary variables (public information) and On Point Loyalty estimates around the program's financial performance for each airline

RANKING: 1-50

Rank	Loyalty Program	Key Associated Airlines	2023 Valuation (USD million)		2020 Valuation (USD million)
1	SkyMiles	Delta Air Lines	27,923	↑	25,391
2	AAdvantage	American Airlines	23,933	↑	23,440
3	MileagePlus	United Airlines	22,002	↑	20,172
4	Rapid Rewards	Southwest Airlines	8,828	↑	8,013
5	Miles & More	Lufthansa Group	7,971	↑	7,418
6	IAG Avios programs	British Airways, Iberia, Aer Lingus, Vueling,	7,084	↑	5,138
7	Flying Blue	Air France-KLM, Kenya Airways, Tarom	6,923	↑	6,675
8	Aeroplan	Air Canada	6,840	↑	6,331
9	SkyPass	Korean Air	4,594	↑	4,375
10	Cathay	Cathay Pacific	4,552	↓	4,701
11	KrisFlyer	Singapore Airlines, Scoot	4,491	↓	5,032
12	Mileage Plan	Alaska Airlines	4,469	↑	3,397
13	Qantas Frequent Flyer	Qantas	4,262	↑	4,104
14	Eastern Miles	China Eastern Airlines	4,169	↑	3,737
15	TrueBlue	JetBlue Airways	3,891	↓	4,029
16	JAL Mileage Bank	Japan Airlines	3,847	↓	4,228
17	Sky Pearl Club	China Southern Airlines	3,746	↑	2,971
18	ANA Mileage Club	All Nippon Airways	3,639	↓	4,197
19	LATAM Pass	LATAM Airlines Group	3,437	↓	4,556
20	PhoenixMiles	Air China, Shenzhen Airlines, Shandong Airlines, Air Macau, Beijing Airlines	3,051	↓	3,179
21	Smiles	GOL Linhas Aereas Inteligentes	2,813	↑	2,805
22	Emirates Skywards	Emirates, Flydubai	2,710	↓	2,777
23	Miles & Smiles	Turkish Airlines	2,624	↑	2,131
24	LifeMiles	Avianca	2,313	↑	1,969
25	Privilege Club	Qatar Airways	2,244	↑	1,703
26	Fortune Wings Club	Hainan Airlines, Hong Kong Airlines	2,240	↓	2,296
27	Asiana Club	Asiana Airlines	2,153	↑	1,528
28	Infinity MileageLands	EVA Air	2,061	↑	1,862
29	Alfursan	Saudi Arabian Airlines	1,844	↓	2,000
30	Dynasty Flyer	China Airlines	1,496	↑	1,369
31	Velocity Frequent Flyer	Virgin Australia	1,467	↑	1,238
32	EuroBonus	SAS Group	1,132	↑	1,037
33	WestJet Rewards	WestJet Airlines	1,127	↑	814
34	Egret Miles	Xiamen Airlines	974	↑	923
35	Free Spirit	Spirit Airlines	939	↑	623
36	Club Premier	Aeromexico	886	↑	883
37	myFrontier	Frontier Airlines	749	↑	582
38	HawaiianMiles	Hawaiian Airlines	745	↑	718
39	TudoAzul	Azul Linhas Aereas	708	↑	603
40	Finnair Plus	Finnair	679	↑	466
41	Airpoints	Air New Zealand	676	↓	791
42	Royal Orchid Plus	Thai Airways	663	↓	807
43	Flying Returns	Air India	646	↑	402
44	Matmid Club	EI AI	600	↑	566
45	GarudaMiles	Garuda Indonesia	598	↓	1,036
46	Norwegian Reward	Norwegian	545	↑	433
47	Flying Club	Virgin Atlantic Airways	519	↑	410
48	Etihad Guest	Etihad Airways, Air Serbia, Air Seychelles	494	↓	555
49	Golden Panda Club	Sichuan Airlines	483	↑	335
50	airasia rewards	AirAsia	384	↓	620

RANKING: 51-100

Rank	Loyalty Program	Key Associated Airlines	2023 Valuation (USD million)		2020 Valuation (USD million)
51	ConnectMiles	Copa Airlines	377	↑	250
52	Allways Rewards	Allegiant Air	321	↑	242
53	Volare	ITA Airways	315	↑	201
54	LotusMiles	Vietnam Airlines	271	↓	365
55	TAP Miles&Go	TAP Air Portugal	267	↓	277
56	Juneyao Air Club	Juneyao Air	267	↓	304
57	BolBol	Pegasus Airlines	252	↑	189
58	Enrich	Malaysia Airlines	234	↓	325
59	Lion Air Passport Club	Lion Air	233	↑	159
60	Saga Club	Icelandair	221	↑	174
61	SUMA	Air Europa	216	↑	193
62	Miles+Bonus	Aegean Airlines	161	↑	117
63	Aerolíneas Plus	Aerolíneas Argentinas	147	↑	109
64	v.club	Volaris	143	↑	114
65	Mabuhay	Philippine Airlines	135	↓	173
66	Refresh Point	Jeju Air	128	↓	130
67	Nomad Club	Air Astana	112	↓	113
68	Doters	VivaAerobus	94		-
69	EgyptAir Plus	Egyptair	81	↑	63
70	Sindbad	Oman Air	77	↓	83
71	Voyager	South African Airways	74	↑	51
72	Royal Plus	Royal Jordanian Airlines	70	↓	91
73	Falconfyer	Gulf Air	70	↓	122
74	Ufly Rewards	Sun Country Airlines	68	↑	36
75	Go Rewards	Cebu Pacific	66	↓	130
76	Club Vistara	Vistara	62	↑	61
77	SpiceClub	SpiceJet	59	↑	30
78	FlySmiles	SriLankan Airlines	53	↓	74
79	AirRewards	Air Arabia	41	↓	47
80	Safar Flyer	Royal Air Maroc	49	↑	47
81	Awards +Plus	Pakistan International Airlines	35	↑	27
82	UzAirPlus	Uzbekistan Airways	31	↑	23
83	airBaltic Club	airBaltic	29	↑	22
84	OK Plus	Czech Airlines	29	↓	33
85	Oasis Club	Kuwait Airways	28		-
86	Loyalty Club	Biman Bangladesh Airlines	16	↑	11
87	Umbi Umbi	TAAG Angola Airlines	15	↓	18
88	Mahan & Miles	Mahan Airlines	15	=	15
89	OnurExtra	Onur Air	13	↑	9
90	Fidelys	TunisAir	12	↓	16
91	Solaseed Smile Club	Solaseed Air	11	↓	15
92	Royal Skies	Royal Brunei Airlines	11	=	11
93	Fly More	Bulgaria Air	7	=	7
94	Préférence	Air Caraïbes	6	=	6
95	FlyerBonus	Bangkok Airways	5	↓	6
96	Nok Fan Club	Nok Air	4		-
97	Kestrelflyer	Air Mauritius	3		-
98	AZAL-Miles	Azerbaijan Airlines	2		-
99	Tabua Club	Fiji Airways	1		-
100	Cedar Miles	Middle East Airlines	1		-

CHANGES VERSUS 2020

Our 2023 ranking shows a mixed picture with circa 60% of the programs increasing in value and the balance reducing in value or staying the same.

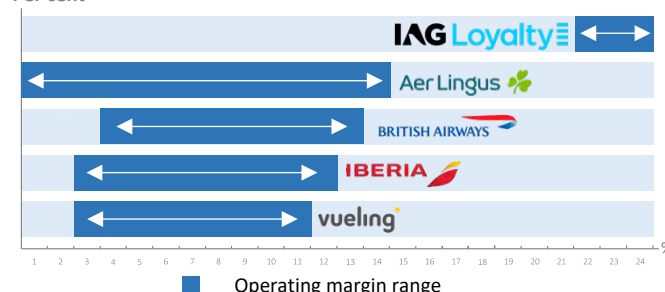
Each individual airline (or airline group) was assessed on the basis of revised inputs across the country, airline and program profiles. As a result, changes in valuations can typically be traced back to a combination of those factors – rather than a single driver. Key factors include GDP per capita growth, the credit rating of the airline, the attractiveness of the program itself and the overall airline size. Other factors, like the share of domestic travel out of the total network (which we consider a premium) tend to be more stable. The type of airline (full service carrier versus low cost carrier) is a particularly sensitive driver – but for the 2023 report there were no changes in this classification for any of the airlines.

We believe that our base multiples are generally consistent with historical market multiples. In the case of recent asset sale transactions, other factors such as the remaining time for the core agreement (governing the access to, and price of, reward seats), and parallel financing structures will have impacted the final transacted valuation (EL AL is a case in point).

SAMPLE PROGRAM FINANCIAL REPORTING

IAG Loyalty, the loyalty business of IAG, is an operating segment of IAG. As shown in Figure 1, IAG Loyalty delivers a materially higher operating margin compared to the airline segments. According to IAG, the operating margin is stated as the weighted average derived from the multi-scenario DCF model developed by IAG.

Figure 1: Ranges of 2021 Operating Margins for IAG segments
Per cent

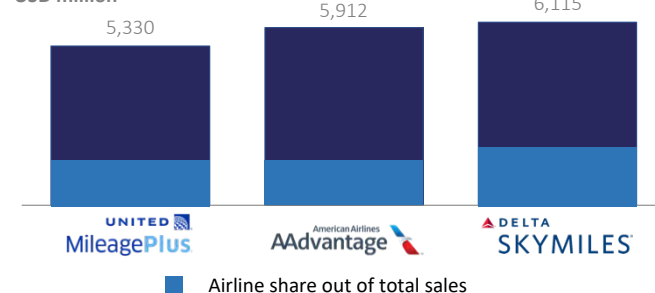


Source: IAG Annual Report and Accounts 2021



During the COVID pandemic, several US airlines used their loyalty program as collateral to raise capital. For United Airlines, 29% of MileagePlus sales was generated through flying on United (and selling miles directly to members). For American Airlines, 26% of AAdvantage sales were to American Airlines and other airlines. For Delta Air Lines, 32% of SkyMiles sales were made to Delta Air Lines.

Figure 2: 2019 Pro forma total sales of the loyalty program
USD million

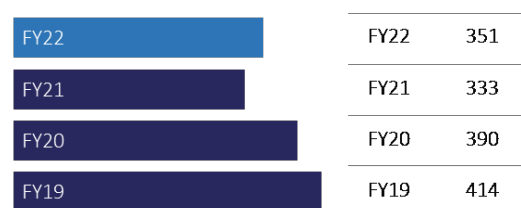


Source: company reports



Qantas Frequent Flyer has been a reporting segment for Qantas since 2007. In its 2022 Financial Year, Qantas Frequent Flyer reported an underlying EBITDA of AUD 351 million. Qantas has stated it is on course to achieve an EBITDA of AUD 500 million in the coming years.

Figure 3: Underlying EBITDA of Qantas Frequent Flyer
AUD million

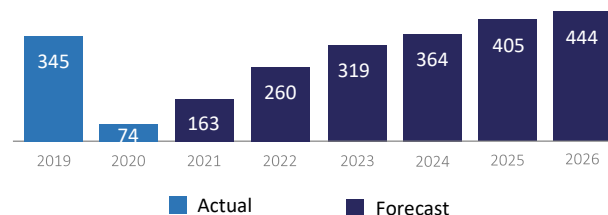


Source: Qantas 2022 Annual Report



LifeMiles is the loyalty business of Avianca. In 2019 LifeMiles produced an EBIT margin of almost 40%, following a growth from 25% in 2016 at an annual rate of almost 37%. Gross Billings grew at a rate of 8% during the same period. Actual Gross Billings dropped from USD 345 million in 2019 to USD 74 million in 2020. Figure 4 shows the outlook in 2021 and beyond for estimated revenues for LifeMiles according to Avianca in 2021.

Figure 4: LifeMiles Loyalty revenues
USD million



Source: Avianca 8-Year Financial Forecast (2021)

CONCLUSION

Loyalty programs are some of the most lucrative assets on airlines' balance sheets. Their sheer scalability, controllability and profitability make them stand-out in an operating environment that is perpetually challenging. The potential value of airline loyalty programs was perhaps never as clear as during the COVID pandemic. By collateralizing the cashflows from the programs, a number of US carriers was able to secure financing when other options failed. Elsewhere in the world, the robust revenues from the sale of miles to non-air partners proved to be critical in the survival of the airlines. Programs are no longer flying under the radar, with the airlines openly speaking about the value attributable to the loyalty segment.

In our view, the question is: what is next? With the curtains firmly pulled on the potential value, and airline board rooms starting to come to terms with the opportunity, we believe that we are on the cusp of a new era in airline loyalty. In this new era, there is a real opportunity for airlines to develop structures that will deliver value accretive and sustainable solutions.

At the same time, we also recognize the headwinds, ranging from a talent squeeze to potential progressive interchange reforms in certain markets. Ultimately however, inertia poses the biggest risk. Collateralizing airline loyalty programs enabled attractive financing structures – however we believe that airline loyalty offers a bigger opportunity.

Collateralizing airline loyalty programs enables attractive financing structures – however it may fall short of realizing the full potential of airline loyalty.

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