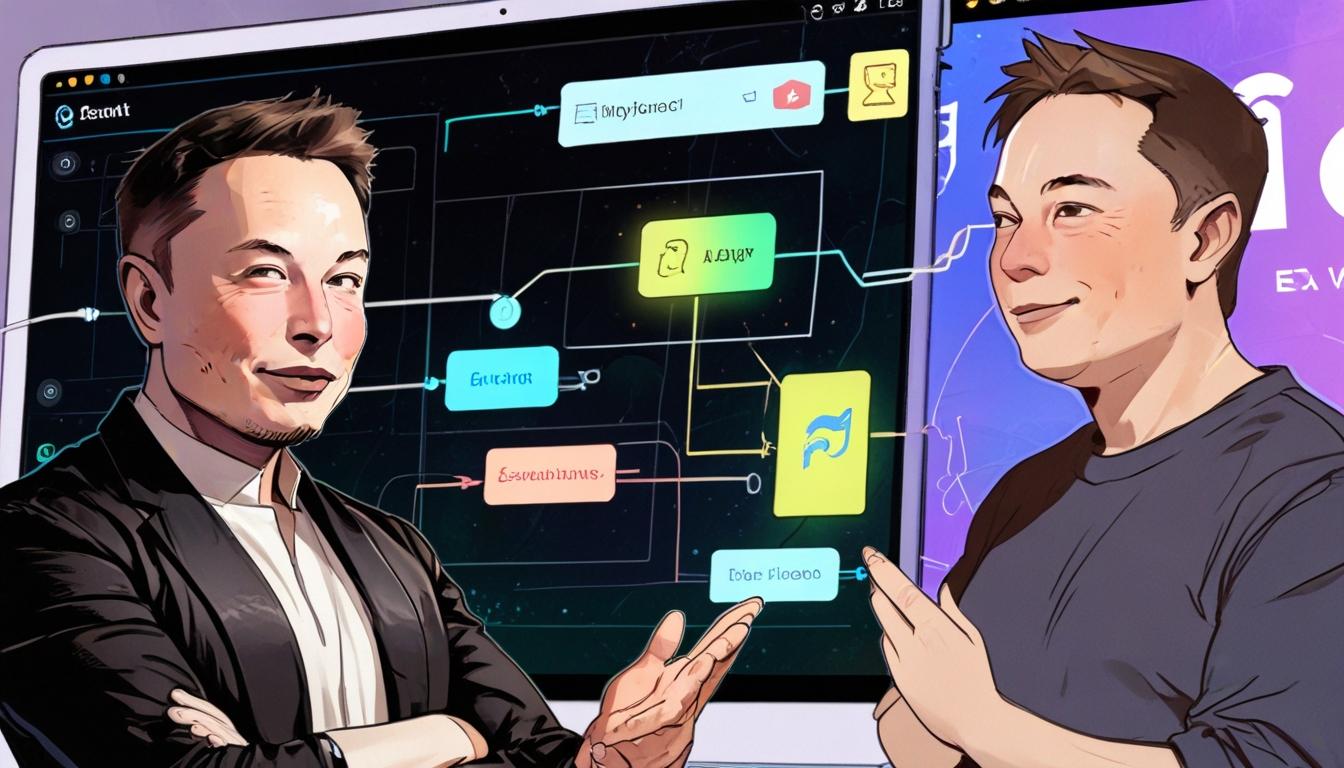
# Elon Musk’s XAI ambitions face fresh challenges from Tencent’s integrated AI strategy



Investor optimism persists around Elon Musk's expanding ventures, including Tesla and his latest company, XAI Holdings—a fusion of X (formerly Twitter) and his artificial intelligence firm, xAI. Despite recent fluctuations in Tesla's stock price, the company trades at valuation multiples greatly exceeding those of traditional automakers and many technology competitors. This premium is largely attributed to Musk's reputation for pioneering innovation in emerging sectors such as robotics, driving software, and AI. This confidence is now extending to his vision for X, which aims to evolve into an "everything app" merging social media, AI, and payment services, with xAI integrating AI to enhance user experience.

Musk is reportedly seeking $20 billion in new funding for XAI Holdings, with the goal of valuing the company at over $120 billion. This ambitious target heavily relies on investor faith mirroring that which supports Tesla's high market valuations.

However, developments in China present a contrasting narrative that could challenge these lofty valuation assumptions for Musk's ventures and the broader AI landscape. Tencent, a leading Chinese tech company, has been quietly innovating by embedding its AI technology called DeepSeek directly into WeChat, the widely used super app with over 1.3 billion monthly active users. WeChat already integrates messaging, payments, healthcare, transport, shopping, and business services into a single platform. By incorporating AI seamlessly into this ecosystem, Tencent has demonstrated how AI can serve as an infrastructure component rather than a standalone novelty.

This approach contrasts with the previously dominant belief that success in AI required vertical integration—that is, controlling everything from foundational AI models to consumer-facing applications. Musk's successes with Tesla's end-to-end control of electric vehicle production inspired similar strategies for AI development. However, in the rapidly commoditising AI sector, where speed of integration and cost efficiency are increasingly crucial, partnerships and ecosystem integration are proving as valuable as outright ownership and vertical control.

For Musk, this evolving dynamic presents challenges. X continues to face substantial interest expenses annually, and its advertising revenues have declined following Musk’s acquisition of Twitter in late 2022. Meanwhile, xAI’s Grok AI models are still striving to attain enterprise-level adoption compared to GPT-4 by OpenAI and rival offerings from Anthropic, which have secured extensive corporate partnerships. While additional funding could assist xAI in closing this gap, the competitive advantage in AI is shifting away from vertical integration towards collaborative and efficient deployment models.

Financially, before Musk's acquisition, Twitter generated around $5 billion in annual revenue with advertising contributing nearly 90%. In 2024, X's global ad sales are projected to be approximately $2.26 billion, according to research firm Emarketer, suggesting a standalone valuation closer to $15 billion based on sector multiples. xAI has indicated it aimed to exceed $100 million in annual revenue last year. At that scale, valuation benchmarks suggest its worth would be just over $2 billion, reflecting the current lack of substantial enterprise traction.

Together, a combined valuation of around $20 billion for XAI Holdings appears more in line with financial realities, significantly lower than the $113 billion figure Musk has associated with the merger of xAI and X.

Tencent’s approach and the resulting lower AI valuation multiples in China signal a major repricing event for the AI sector worldwide, underscoring the diminishing value of technological novelty alone. The era of substantial premiums on AI innovation is giving way to a new phase where the ability to operate efficiently with minimal capital investment will determine success. Musk’s vision of a super app incorporating AI faces a market environment where AI is both abundant and inexpensive, requiring strategic adjustment to thrive.

These insights into contrasting AI integration strategies and valuation trends reflect ongoing shifts in the technology industry’s understanding of competitive advantage and market potential in the AI era.

The Financial Times is reporting on these developments.

Source: [Noah Wire Services](https://www.noahwire.com)

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