

THE INFLUENCE OF LIQUIDITY AND PROFITABILITY TOWARD SHARE PRICE: MEDIATED EFFECT OF HEDGING (EVIDENCES FROM SHARES OF LQ-45 LISTED IN INDONESIAN STOCK EXCHANGE FOR PERIOD OF 2011 TO 2015)

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Abstract

Purpose: This study aims at investigating and testing the mediated effect of Hedging on the effect of profitability and liquidity toward share price at shares of LQ-45, listed in Indonesian Stock Exchange from 2011 to 2015. The current research was conducted because the phenomenon and the fluctuations in price of shares were unavoidable.

Methodology: The Structural Equation Modelling (SEM) by Amos was used to analyze the 110 observations of data.

Main Findings: The result of analysis shows that; (1) the liquidity gives not significantly negative influence to share price, (2) the liquidity gives significantly negative influence to hedging, (3) the profitability gives significantly positive influence to share price, (4) the profitability gives significantly negative influence to hedging, (5). Hedging gives significantly positive influence to share price.

Implications/Applications: The present study provides new evidence that the mediated effect of Hedging on the influence of liquidity and profitability toward share price has more strength compared to the direct influence of liquidity but not for profitability.

Keywords: Hedging, liquidity, profitability, share price, LQ-45, Stock Exchange.

INTRODUCTION

Generally, the purpose of investors on investing their fund is to maintain the stability of the value of wealth, as well as to obtain a financial benefit. In general there are 7 (seven) types of investment known by the community such as; Savings, deposits, properties, mutual funds, bonds, gold, and stocks. Shares are securities that indicate a person's ownership of a company.

In investing in the share, investors or shareholders expected to obtain the gain both dividends and the difference between the value of the sale and purchase that occurred, but otherwise the possibility of losses will occur also so that the value of shares owned by investors decreased.

To find out how much the value of shares owned by investors, then investors should see the movement of share price index in order to estimate what should be done on shares that exist, whether to sell, buy, hold or buy other shares. In Indonesia, there are several types of share price index such as individual index, composite share price index, index LQ-45, Syariah index or Jakarta Islamic index, Compass index 100, and others.

[Dwijayanto and Anggriawan, \(2016\)](#) cite the statement of Nasution, Darmin who said that the Indonesian economy is very vulnerable from the financial and capital aspects, this is not only the result of external factors, but also due to internal factors that are not ready to face the excesses of the global economy is a tight competition and impact on the Indonesian economy, and ultimately affect the share price.

The Fluctuation of share prices is difficult to estimate and thus it has become a big risk for shareholders. The existence of economic uncertainty is one of the investment risks that affect the fluctuation of share prices, and this must be faced by an investor when investing in shares. However, such risks can be controlled if the investor buys hedging or hedging products even for state-owned enterprises ("BUMN").

[Hendar \(2016\)](#) explains the urgency of "BUMN" using hedging transactions is still high. The cause is the potential pressure from the global economy still overshadows the domestic financial market. In addition, foreign loans should also be made because the financial market in Indonesia is also not too deep. Reflecting on the experience of the post-global financial crisis in 2008, "BUMN" that did not optimize the value of transactions experienced a high loss due to volatility of the rupiah exchange rate.

In the midst of a fluctuating share market, surely it is desirable for other products as a hedge for investors who have a portfolio in the spot market, LQ-45 futures can be an alternative product. Furthermore, Investors could use LQ-45 futures products, as an asset hedge in the share market if at the same time the domestic share market is in a bearish trend, said by Alpino Kianjaya as the Director of Trade and Member Settings, (1/2/2016).

The Indonesian Stock Exchange (IDX) and the Indonesian Clearing Guarantee Corporation (KPEI) reactivate the trading of Derivative Futures products based on Securities Index (KBIE), LQ-45 Futures Index (LQ-45 Futures) to support the

development of Indonesian capital market in the future, furthermore, He said many investors are looking forward to this because they can protect the value of their shares and can do a “short position”, if you do not have a position we can do a “short position”, and we can do invest through product derivatives, said Director of Trade and Member Settings, Alpino Kianjaya, During the Soft Launching event of LQ-45, at Main Hall IDX, Jakarta, Monday (1/2/2016).

Researches about the relation liquidity have discovered liquidity as estimated by the Current proportion (CR) appeared to influence share cost, however Meythi and Rusli demonstrated the unimportance impact of the liquidity on the share cost of manufacturing, also [Sitorus \(2016\)](#) states that the ratio of liquidity does not affect the growth of share price, furthermore [Sitorus and Susi \(2017\)](#) proved that there is negative association between liquidity with stock price's growth.

Similarly, some research on the relationship between profitability and share price, as stated by [Chen and Chen \(2011\)](#) stated that ROA as Profitability indicator has a positive and significant effect on share value, also findings from [\(Sitorus, 2016; Amelia, 2016; Anjani & Baihaqi, 2018; Bahri et al., 2017; Hosban, 2016; Hsu & Utami, 2016; Sundar & Al Harthi, 2015; Hoai & Thanwadee, 2015\)](#). In his research in the fishery sector that there is a positive and significant influence between profitability to share price, whereas Indarti (2016) establish that profitability as estimated by ROA does not firm impact on the organization's offer cost.

Based on the study that mentions above, to ensure that share prices are stable, it is necessary for the company to protect the funds invested, through derivative products such as hedging. [Brav, Wei, Frank, and Randall \(2006\)](#) characterize mutual funds by their key qualities however they discover four regular attributes: (1) they are pooled, secretly sorted out speculation vehicles; (2) they are controlled by expert investment managers; (3) they are not generally accessible to people in general; and (4). they work outside of securities guideline and enlistment necessities.

As per research's gap was demonstrated by the creators that notice above, creators expanded the connection between certain factors, for example, liquidity offer costs and productivity with offer costs. Hence, this examination attempts to create connections of free factors, for example, Liquidity and productivity with the share price gap through a mediator variable like hedging.

In accordance with the research gap as described above, this study therefore specifically aims to; 1). know the influence of liquidity ratio on share price, 2). know the influence of liquidity ratio on hedging 3). know the influence of profitability ratios on share prices, 4). know the influence of profitability ratios on hedging. 5). know the effect of hedging on share prices

LITERATURE REVIEW

Share Price and Index

[Curry and Winfield \(1994\)](#) offered a brief definition of the share exchange as: “..... an institution where quoted investments (stock and shares) may be exchanged between buyers and sellers.”, while [Mishkin and Eakins \(2003\)](#) provided that a share is a security that represents a share of ownership on the earnings and assets of the corporation.

According to [Brigham and Joel \(2014\)](#), the share price is defined that "the price at which share sells in the market". While the “share market price is the market value of securities which may be obtained by investors to sell or buy shares, which are determined based on the closing price (closing price) on the share exchange on the day concerned”. Therefore, the last price at the end time of trading is called closing price, furthermore, according to [Darmadji \(2012\)](#), [Neminno and Gempes \(2018\)](#), [Taechaubol \(2018\)](#), [Tsai and Chang \(2018\)](#) share price index is an indicator that shows the movement of share prices. The index serves as an indicator of market trends, meaning that the index movement describes the market conditions at a time, whether market is active or lethargic.

Index of LQ-45

According to [Darmadji \(2012\)](#) Index of LQ-45 is an index consisting of 45 share options with reference to two variables of trading liquidity and market capitalization. Every six months, there are new shares that enter into LQ-45.

Current Ratio

According to [Brigham and Joel \(2014\)](#), the current ratio is calculated by dividing current assets with current liabilities. This ratio shows the extent to which current liabilities are covered by assets that are expected to be converted into cash in the near future. Current constellation is current asset divided by current liabilities.

Liquidity Ratio

According to [Brigham and Joel \(2014\)](#), the liquidity ratio is the ratio that addresses the relationship between cash and current assets of other companies with their smooth liabilities, while According to [Subramanyam and John \(2013\)](#) Liquidity refers to a company's ability to meet its short term obligations.

Quick Ratio

According to [Brigham and Joel \(2014\)](#), the quick ratio is calculated by reducing inventories with current assets, then dividing

the remainder by current liabilities or quick ratio is current assets less the inventory and the result divided by current liabilities.

Profitability Ratio

As per research of [Brigham and Joel \(2014\)](#) profitability ratio is a group of ratios that show a combination of liquidity influence, asset management and debt on operating results, consisting of; Return on Total Assets (ROA) is net income to total assets ratio and Return on common equity (ROE) is net income to ordinary equity ratio to measure return on ordinary shareholder investment.

Market Value Ratio

According to [Brigham and Joel \(2014\)](#), the ratio of market value is a combination of ratios that connect the firm's share price with earnings, book value per share, and cash flow.

Price Earnings Ratio

According to [Brigham and Joel \(2014\)](#), the ratio of price per share to earnings per share shows the amount of dollars paid investors for every \$ 1 current profit

Hedging

According to [Madura \(2007\)](#), Hedge is an action taken to protect the company from exchange rate changes, also according to [Hady \(2010\)](#) "Hedging is an act by the company to avoid or reduce the risk of loss due to fluctuations in foreign exchange rates", while according to [Harjito \(2014\)](#) Hedging or hedging is a strategy undertaken to limit the likelihood of loss due to exchange rate risk. While [Birnbo and Wernersson \(2013\)](#), [Kinata \(2016\)](#) and [Layyinaturrobanayah et al. \(2016\)](#) state the Determinant Influence on Hedging Strategies such; Financial Performance like Profitability and Liquidity. Some researchers conducted a research related to hedge or derivatives, such as [Zachary \(2011\)](#) found a significant and negative association with firm liquidity with the decision to hedge, also [Bartram, Brown, and Fehl \(2009\)](#), [Liew and Chou \(2016\)](#), [Lin et al. \(2018\)](#) discover that derivatives handlers have greater leverage and lesser liquidity. Also [He and Ng \(1998\)](#) and [Chow and Chen \(1998\)](#) suggest that companies with more leverage and low liquidity have more of an incentive to hedge, but are nevertheless more sensitive to currency fluctuations.

RESEARCH METHODOLOGY

Research Design

The current examination utilizes quantitative technique and the kind of examination is explanation examination which involves hypotheses analysis. The current examination is a causal associative, as [Sugiyono \(2010\)](#) expressed that causal cooperative technique is the definition of investigation issues that are requesting to be a causative connection between the dependant as well as independent factors.

Measurement Scale and Operational Variables

[Ihalaaw \(2008\)](#) states that the concept placed before the other concept is called the independent variable. In addition to having the characteristics of placement or position, independent variables and dependent variables have other characteristics again. A concept is called the independent variable if the concept can cause effect to other concepts. On the other hand it is called the "gayut" variable if the concept is exposed to the result of the independent variable. So, the variables are;

a) Variable of dependent (Y)

The share price indicated by the price per share ratio and earnings per share, also the market value ratio and book are independent variables of the current examination.

b) Variable of independent (X)

The independent variable (free) in this research is the Liquidity Ratio (X1), Profitability Ratio (X2). The Liquidity Ratio is indicated by Current Ratio and Quick Ratio, while Profitability is indicated by Return on Total Assets (ROA) and Return on Common Equity (ROE).

c) Mediate Variables (Y1)

Hedging; using the closing index LQ-45 on the last day of December per year. The hedging indicated by Low Price (LOW) and High price (HIGH)

All variable measured by the scale of ratio excludes variable of Hedging that measured by low price and high price, that describe as bellow.

Population and Sample

The population used in this study is the industry listed on the Indonesia Share Exchange as many as 539 companies, while

in this study, the determination of the sample is not done randomly but has been determined. The technique used is Non-Probability Sampling; where sampling technique that does not give equal opportunity every element (member) of population to be selected become member of sample. Sampling for a number of people/objects in accordance with predetermined criteria, using various means (purposive). Sample selection criteria are presented in the following table. Third, it is necessary to carry out research that focuses on the nature and aspect of human experience. It is necessary to understand the human being in relation to individual experience and society by paying attention to the nature of personal and social human experience. In this way of human understanding, narrative enables a holistic approach based on the interaction of individuals and societies.

Table 1: Operationalization of Variables

No	Variable	Defenition	Indicators / Proxy	Formula
1	Share Price	Earning price ratio or Book Value of securities	1). Price Book Value 2). Earning per share	Value of published share divided by the amount of published share. Net income divided by the amount of published share
2	Liquidity	The ability of a company to manage the current asset.	1).Current Ratio 2).Quick Ratio	The amount of current asset divided by the amount of current liability. The amount of current asset excludes the inventory divided by the amount of current liability.
3	Profitability	The ability of a company to make return.	1). Return on Asset 2). Return on Equity	Net Income divided by total investment. Net Income divided by shareholder's investment
4	Hedging	The firm action to reduce the loss caused by the fluctuation of the value of share	1). Low Price 2). High Price	The premium paid by the firm when the share value is lower The premium paid by the firm when the share value is higher.

Table 2: Sampling Criteria

Criterion	Amount
Companies listed on BEI	539
Companies that enter into LQ45	45
A company that lasted for 5 years in LQ 45 (2011-2015)	22
Companies in the research	22
Observation of company data = 5 years	110

Based on table 2, companies listed on the BEI there are 539 companies, then companies that can enter into the LQ-45 only as many as 45 companies. And from 45 companies there are only 22 companies that survive for 5 years in a row, and with observations for 5 years (2011-2015) in the period end of the year (December) so that the amount of observation data as much as 5 years x 22 companies = 110 data.

Data source

Data used in this research is external data that is data obtained through website www.idx.co.id, so this research uses secondary data. Secondary data obtained by collecting data from publication website www.idx.co.id.

Based on the time of collection, this study uses the Time Series method because this research is doing research in a certain period only in the period 2011-2015.

Research Instruments

This research is causality research where there is relationship between two or more variables. Relationship in research is causal relationship that is cause of effect, where there exogenous variable that is variable influencing endogen variable that is influenced variable.

Financial data from issuers is processed through the excel program to get data about each variable indicator. The Liquidity Ratio, Profitability Ratio, Hedging Premium use Closing index from LQ-45 index on the last day of transaction in December, and share price using Price / Profit Ratio and Ratio of market value/book value.

Testing Research Instruments

Testing in this research using the classical assumption test that is Normality and Structural Equation Model (SEM). It is a statistical model that gives approximate calculation of strength of hypothesis relation among variable in study theoretical framework, either in a direct way or through intermediate factor. SEM is used to analyze the relationship between one latent variable and another latent variable known as structural equation. Data processing in this research is using AMOS program (Analysis of moment structure).

According to [Ferdinand \(2006\)](#) and [Ghozali \(2008\)](#) on model testing using SEM there are seven steps to be taken, namely; Development of a theory-based model, Development of the path diagram, The constructed theoretical model will be depicted on a path diagram to be estimated, Convert the path diagram into the equation.

Normality test

According to [Umar \(2008\)](#), the normality test is useful to know whether the independent or dependent variable or both are normally distributed, near-normal, or not. If the data is normally distributed then the regression model can be used. To detect whether the data is normally distributed or cannot be known by describing the spread of data through a graph. If the data spread around the diagonal line and follows the direction of the diagonal line, the regression model used meets the assumptions of normality.

Analysis Technique

A study requires data analysis and interpretation aimed at answering research questions in order, revealing a particular social phenomenon. Data analysis is the process of simplification of data into a form that is more easily read and interpreted; the technique was chosen to analyse the data must be in accordance with the research patterns and variables to be studied. Analysis technique in this research is Structural Equation Modelling (SEM). SEM is a tool to analyse multivariate data, especially to test the causality relationship. Analysis performed in SEM can be simple or complex ([Latan, 2012](#)).

The software used to analyse is the Analysis of moment structure (AMOS). AMOS is used because it is considered able to test a series of hypotheses that have been formulated together where there is more than one interrelated variable and test the feasibility of one model with research data

This research uses two kinds of analysis technique that is:

- Fit model is analysis to know that the research model is suitable and can predict the relationships between independent and dependent variables
- Confirmatory factor analysis on SEM used to confirm the most dominant factors in one group of variables
- Regression weight on SEM used to examine how large variables studied affect each other.

So the Models are;

$$\text{Share Prices} = \alpha + \beta \text{Liquidity} + \beta \text{Profitability} + \beta \text{Hedging} + \text{error} \quad (1)$$

$$\text{Hedging} = \alpha + \beta \text{Liquidity} + \beta \text{Profitability} \quad (2)$$

RESULT AND DISCUSSION

Normality test

Testing the normality of data distribution used in the analysis using statistical tests that have been provided in the program AMOS.

Table 3: Normality Assessment

Variable	Minimum	Maximum	skew	c.r.	kurtosis	c.r.
ROE	4,50000	125,81000	4,28939	17,85814	20,37447	42,41284
ROA	1,80000	71,51000	2,64231	11,00081	12,20331	25,40321
PER	4,68000	44,61000	1,29183	5,37832	1,64347	3,42115
PBV	,33000	46,63000	5,23518	21,79581	27,30219	56,83404
LOW	670,95000	892,30000	,69545	2,89537	-,84011	-1,74883
HIGH	675,10000	898,58000	,65412	2,72333	-,87877	-1,82931
QR	-302,95000	1175,05381	2,08995	8,70116	6,10764	12,71407
CR	45,00000	8570,74059	5,67830	23,64066	37,75580	78,59497
Multivariate					83,10833	33,50204

Based on table 3 displayed above, it can be seen the outcomes of normality c.r multivariate known at 80.971 and larger than 2.58 thus it is concluded that data distribution of this study is not normal.

Multicollinearity and Singularity

The next test is to see if there are multicollinearity and singularity in a combination of variables. The indication of multicollinearity and singularity can be known through the determination value of the sample covariance matrix is really small, or close to 0.

SEM Test

In this study used SEM testing to verify the fitness of the model utilized in the present study. The results of model testing are found in following Table 4.

Table 4: Model Test Result

Index for Goodness off fit	Cut of Value	Result	Criteria
Chi Square	$< \alpha, df$ ($< 0,05; 9$) = 16.92	9,134	Fit
Probability	$> 0,05$	0,425	Fit
CMIN/DF	≤ 2	1,015	Fit
GFI	$\geq 0,90$	0,978	Fit
AGFI	$\geq 0,90$	0,930	Fit
CFI	$\geq 0,95$	1	Fit
TLI	$\geq 0,95$	0,999	Fit
RMSEA	$\leq 0,08$	0,012	Fit

Source: Results of AMOS 22

Based on table 4 mentioned above, it is found that the overall research model is fit model that can be accepted.

The results of the model study in accordance with the criteria of goodness off fit with the explanation as follows:

1. Chi-square should be below 16.92 which can be from chi-square table where $df = 9$. Where the result is $9,134 < 16,92$ that means chi-square is very delicate to the sample used.
2. Probability $p = 0.425$ so it can be said that the criteria fit because the cut of value of probability is 0,05
3. CMIN / DF is The Minimum sample Discrepancy function divided by Degree of freedom. CMN / DF is nothing but a chi-square satis, X^2 divided by its Df is called relative X^2 . From the research results obtained CMIN / DF is 1.015 which shows the model fitness to the data.
4. GFI is a non-statistical measure that has a range of values between 0 and 1. High values in this index show a better fit and have a cut off value ≥ 0.90 From the results obtained GFI of 0,978 which means equal to 97.8 % Variance of share price variance can be explained by the ratio of liquidity, profitability ratio, and hedging. The remaining 2.2% is explained by other factors outside the model.
5. AGFI where the recommended level of acceptance is when AGFI has a value equal to or greater than 0.90. With the results of 0.930 then the test of the model used is fit.
6. CFI where when approaching 1 indicates the highest level of fit. The recommended value is > 0.95 with the result of 1 weight of the model already has a fit incremental fitness level
7. TLI is an incremental index comparing a model tested against a baseline model, where a model of 0.95 and a value close to 1 indicates a very good fit. The result is 0.999 which means the model is in good criteria.
8. The RSMEA demonstrates the goodness of fit that can be expected when the model is estimated in the population. A smaller or equal value of RMSEA is an index for the acceptability of a model showing a close fit of the model based on the degree of freedom. Based on the research results obtained RMSEA of 0.012 which means the model is fit.

Table 5: Model Hypotheses Result

			Estimate	S.E.	C.R.	P	Label
HEDGE	<---	LIQUID	-,09219	,00826	-1,12297	,06145	par_1
HEDGE	<---	PROFIT	-,24125	,87216	-2,70841	,00676	par_2
VALSHARE	<---	HEDGE	,04722	,00220	2,32888	,01987	par_3
VALSHARE	<---	PROFIT	,74681	,06134	12,93884	***	par_9
VALSHARE	<---	LIQUID	-,02673	,00021	-1,38666	,16555	par_10
CR	<---	LIQUID	,76568				
QR	<---	LIQUID	1,00483	,13568	1,90384	,05693	par_4
HIGH	<---	HEDGE	1,00526				
LOW	<---	HEDGE	,99463	,00565	173,98712	***	par_5
PBV	<---	VALSHARE	1,27308				
PER	<---	VALSHARE	,38196	,11053	3,21957	,00128	par_6
ROA	<---	PROFIT	,81967				

ROE	<---	PROFIT	1,00618	,16425	14,08884	***	par_7
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Source: Results of AMOS 22

Below are an SEM Full Model line diagram and the model test table of the AMOS 22 version.

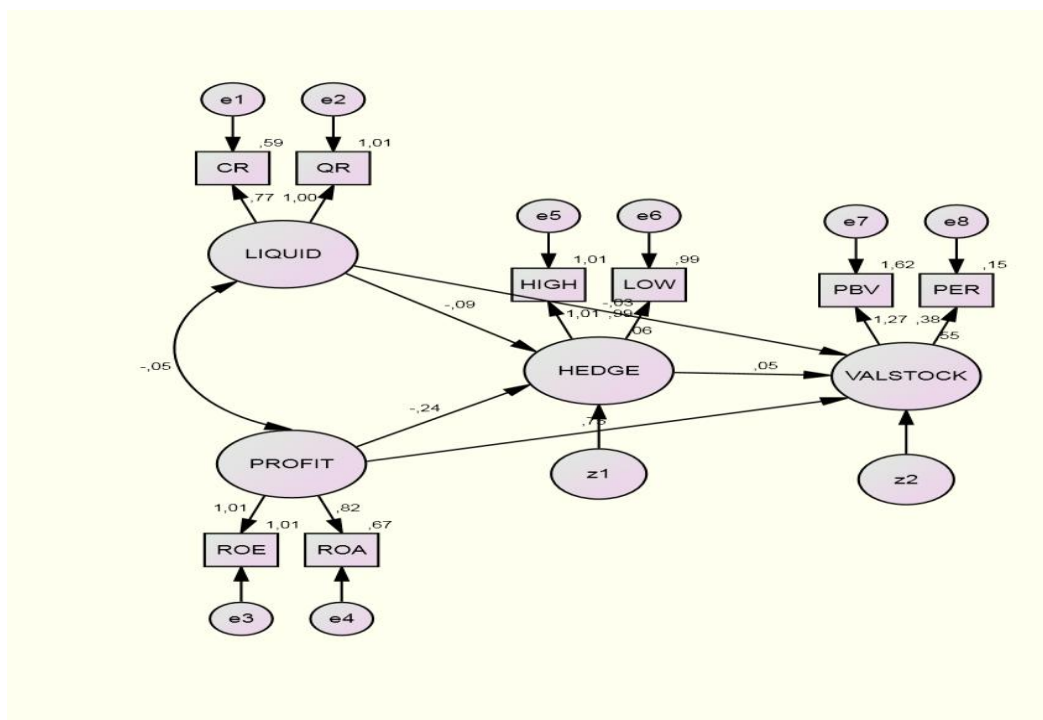


Figure 1: Full model SEM Path diagram

Table 6: Direct, Indirect, Total Effect

Direct Effect			
	Liquidity	Profitability	Hedging
Share Price	-0,026	0,746	0,047
Hedging	-0,092	-0,24	1,000
indirect Effect			
	Liquidity	Profitability	Hedging
Share Price	-0,004	-0,011	0,000
Hedging	0	0	0,000
Total Effect			
	Liquidity	Profitability	Hedging
Share Price	-0,030	0,735	0,047
Hedging	-0,092	-0,24	1,000

Note: LIQUID = Liquidity; PROFIT = Profitability; HEDGE= Hedging; VALSTOCK (VALSHARE)= Share Price; CR= Current Ratio; QR= Quick Ratio; ROA= Return on Asset; ROE = Return on Equity; PBV = Price book value of share; PER = Price Earnings Ratio; LOW = Premium paid for Lower price of share; HIGH= Premium paid for Higher price of share

Based on table 5 and table 6 that mention above, the structural equation generated by the fit model formed from the output of Amos 22 are as follows:

$$\text{Share Prices} = -0.026 \text{ Liquidity} + 0.746 \text{ Profitability} + 0,047 \text{ Hedging} + \text{error} \quad (\text{Equation 1})$$

$$\text{Hedging} = -0,092 \text{ Liquidity} - 0.24 \text{ Profitability} + \text{error} \quad (\text{Equation 2})$$

From the structural equation mentioned above, it proves that share prices will increases 0,724 if the each liquidity, profitability and hedging equal 1 unit, while the hedging variable decreases by 0,332 unit if each profitability and liquidity equal 1 unit.

Hypothesis Testing

Hypotheses 1 (H1): The effect of liquidity on share prices

Based on the table 5 can be said that the test between Liquidity and Share Price variables is known to have negative coefficient (-0.026) with of p-value of 0.165 or can be concluded that to say H1 is rejected, which means Liquidity does not significantly affect the share price. Because the coefficient has a sign negative means the influence of variables Liquidity is not in line with share prices, so although liquidity increased, but share prices will be decreasing.

This evidence is in agreement with the results establish by [Meythi, and Rusli \(n.d.\)](#) titled "The effect of the liquidity and profitability of the manufacturing company's share price contained in the Indonesia Share Exchange", that identified partially, current ratio used to measure liquidity is insignificant influence on share price of manufacturing companies. Likewise, [Afrianti \(2012\)](#) demonstrated that there will be no influence of liquidity of the company on the value of share of company. Similarly, [Kusumadewi \(2015\)](#) detailed that partially there is no effect of current ratio on share price.

Hypotheses 2 (H2): The influence of liquidity on Hedging

Based on the table 5 can be said that the test between Liquidity and Share Price variables is known to have a negative value of p-value of 0.26 or can be concluded that to say H2 which means Liquidity does not significantly affect the share price with a coefficient negative of 0.092. Because there is negative sign with coefficient value, which means influence of variables Liquidity is not in line with share prices.

This evidence is consistent with [Zachary \(2011\)](#) found a significant and negative association with firm liquidity with the decision to hedge, also [Bartram et al. \(2009\)](#) discover that derivatives handlers have greater leverage and lower liquidity. Also [He and Ng \(1998\)](#) and [Chow and Chen \(1998\)](#) suggest that companies with great leverage and low liquidity have additional of an incentive to hedge, but are nevertheless more sensitive to currency fluctuations.

Hypotheses 3 (H3): The effect of profitability on share prices

From table 5 it can be seen that Profitability and Share Price variables have a p-value of *** (0.000) or we can say that receiving H3 states that Profitability has a significant positive effect on share prices with coefficient value of 0.746. Because there is positive sign with coefficient value that means the influence of liquidity of variable in the direction of share prices.

The results of this study also support for the research conducted with evidence the Taiwan share market, who proved that the greater is firm profitability, the more distributable earnings there are for shareholders, and thus the expected firm value will be higher, and this study also support [Chen and Chen \(2011\)](#) with evidence listed companies in Taiwan for the years 2005-2009, proved the relationship between profitability with firm value, the results confirmed that profitability has a positive effect on firm value, also findings from [Sitorus \(2016\)](#) states that there indicate a positive effect of profitability on share prices.

Hypotheses 4 (H4): The effect of profitability on hedging

Table 5 shows that the test between Profitability and Share Price variables have a p-value of *** (0.006) or we can say that receiving H4 which means Profitability possess a significant adverse effect on hedging with coefficient value of 0.385. Because there is positive sign with coefficient value that means the influence of liquidity of variable in the direction of share prices.

This study consistent with [Bartram et al. \(2009\)](#) discover a negative connection between gross profit margin and derivatives use

Hypotheses 5 (H5): The effect of hedging on share prices

Table 5 displays that the test between the variables Hedging and Share Price have a p-value of 0.017 or can be concluded that receiving H5 which means Hedge holder possesses a significant influence on Share Price with 0.047 value of coefficient. As coefficient possess a positive sign that reflects the effect of the Hedging variable in the direction of the share price.

This study support to [Brav et al. \(2006\)](#), [Boyson and Mooradian \(2007\)](#) are giving hard proof that fence funds, on normal, are not an underhandedness but rather a gift to the normal investor in the manner that they go about as investor backers and operators for corporate change.

This study also supports to [José and Laham \(2017\)](#) who proved that there is an effect of the association's supporting approach on their reasonable worth for an example of Brazilian non-money related organizations recorded in the São Paulo Share Exchange from 1996 to 2005. The outcomes demonstrate that the selection of a supporting strategy increases the value of the firm. The outcomes demonstrate that the positive effect of utilizing subordinates is free of the econometric technique and period dissected.

This study also supports [Carter et al. \(2006\)](#). In the investigation, the creators demonstrated that supporting with connection to oil costs in the carrier's business is emphatically identified with firm value and the supporting premium reaches over 5%.

CONCLUSIONS AND SUGGESTION

Conclusions

There are several conclusions as follows;

1. The price of the share is negatively influenced by Liquidity and not significant, it can be said that hypothesis "1" is rejected which means liquidity does not affect share price change, it means that although the amount of liquidity increases, it does not affect to the increase of share prices. In this research, liquidity variable is latent or unobserved variable which is proxy by current ratio and quick ratio. All factors have high factor loading that proves liquidity variable determined by all factors.

This evidence supports [Meythi, and Rusli \(n.d.\)](#) who proves the negative influence of liquidity on price of share of manufacturing, also [Sitorus \(2016\)](#) states that the ratio of liquidity does not affect the growth of share price, [Sitorus and Susi \(2017\)](#) that proves there is an effect liquidity on share prices.

2. Hedging is influenced by Liquidity negatively and significantly so it can be said that the H is confirmed which reflects that liquidity does affect negatively the hedging, meaning that the firm with the low liquidity needs a decision of hedge. In this study the hedging variable is a latent or unobserved variable that is proxy by the Lower Price (LOW) and the higher price (HIGH). All indicators indicate high loading factors that prove the variable of hedging determined by all indicators.

This result agrees with [Zachary \(2011\)](#) found a significant and negative association with firm liquidity with the decision to hedge, also [Bartram et al. \(2009\)](#) discover that derivatives handlers have greater leverage and lower liquidity. Also, firms with high leverage and low liquidity have more of an incentive to hedge but are nevertheless more sensitive to currency fluctuations.

3. The price of the share is affected by profitability positively and significantly, so it can be said that the H3 is confirmed which reflects Profitability influence on share price changes. As the coefficient possess a positive sign that shows the influence of Profitability variables in the path of share prices, meaning that if there is increase in Profitability, share price will also increase. In this study Profitability variable is a latent or unobserved variable that is proxy by ROA and ROE. All indicator indicates a high loading factor that proves the variable of profitability determined by all indicator.

This evidence supports [Chen and Chen \(2011\)](#) stated that ROA as Profitability indicator has a positive and significant effect on share value, also findings from [Sitorus \(2016\)](#) in his research in the fishery sector that there is a positive and significant influence between profitability to share price.

4. Hedging is affected by profitability negatively and significantly, so it can be said that the H4 is established that reflects Profitability negatively affect the change of hedging. As there is a negative sign with the coefficient that means the influence of Profitability variable is not unidirectional to the change of hedge, meaning if Profitability increases, then the reverse hedge will decrease. This study is consistent with [Bartram et al. \(2009\)](#) find a negative relationship between gross profit margin and derivatives use.
5. The Price of Share is affected by hedging positively and significantly, so it can be said that the hypothesis "5" is accepted which means hedging effect on share price changes. Because the coefficient has a positive sign means the influence of hedging variables in the direction of share prices, meaning that if hedging increases, then the share price will increase too. In this study Price of Share variable is a latent or unobserved variable that is proxy by Price Book Value (PBV) and Price Earnings Ratio (PER). All indicators indicate high loading factors that prove the variable of Price of Share determined by all indicators.

As shown in table 6, proves that the direct effect of liquidity on share of price is lower than indirect effect, while direct impact of Profitability on price o share is greater as compared to indirect effect. It means that hedging can acts as mediate variable on the influences of Liquidity but not for Profitability toward Share Price at the firms registered as LQ-45 listed in Indonesian Share Exchange. This evidence supports to [Brav et al. \(2006\)](#), [José and Laham \(2017\)](#), [Boyson and Mooradian \(2007\)](#) are providing hard evidence that hedge funds on average are a blessing to the average shareholder.

IMPLICATIONS

Theoretical Implications

The outcomes of this reading add to academic form of recommendation that may fill the gap present in past investigation about impact of Liquidity and effect of Profitability toward Share cost directed [Sitorus \(2016\)](#), that by adding variable Hedging as a mediator variable made coefficient value to be stronger as compared to the coefficient value of direct impact of liquidity on price of share. The results of current research make significant addition to share price growth that can be increased by enhancing profitability and liquidity at same time.

Practical Implications

Besides, this study recommended that; (1). The firm which registered on LQ-45 in order still always maintain liquidity such in order able to pay the premium of hedging. Share, as proved empirically that liquidity has the capacity to upsurge the dividend paid out that possess positive influence on stock price growth (2). The company in order continuously preserve profitability such as; Return on Assets or Return on Equity to be capable of paying hedging premium.

LIMITATIONS

Several limitations of this research which must be considered by future studies; (1). In data observation was only from 2011 – 2015 (2). The exploration test of organizations utilized in this examination was constrained on the grounds that it just inspected the member of LQ-45, in this manner, it is for the following exploration expected to expand the time of the investigation and the example isn't just part of LQ-45, but other companies. (3). The Factors affecting the share price a considerable amount, however in this examination just utilizes three factors, for example, liquidity, benefit, and Hedging paid out. In further explore, it is requirements to utilize different factors with the goal that the examination turns out to be increasingly changed, like Size of firm, Leverage and Risk factors.

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